

# MANAGING HUMAN CAPITAL IN THE 21ST CENTURY

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## HEARING

BEFORE THE  
OVERSIGHT OF GOVERNMENT MANAGEMENT,  
RESTRUCTURING AND THE DISTRICT OF COLUMBIA  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE  
ONE HUNDRED SIXTH CONGRESS  
SECOND SESSION

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MARCH 9, 2000  
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THURSDAY, MARCH 9, 2000

U.S. SENATE,  
OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING,  
AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE,  
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,  
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:02 a.m., in room SD-342, Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senators Voinovich, Durbin, and Akaka.

## OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Good morning. The hearing will come to order. I want to thank all of you for coming.

Today, the Subcommittee on Oversight of Government Management holds a hearing entitled, "Managing Human Capital in the 21st Century." We will examine whether the Federal Government is positioning itself to address the human capital challenges of this decade. This hearing underscores the importance of my larger agenda of empowering Federal employees and changing the culture of the Federal workforce.

I think attention to our workforce, what I refer to as the "A team," is one of the most valuable uses of this Subcommittee's time. We simply cannot have the efficient, effective, and streamlined government we all seek if we do not take care of our people.

In his recent book, *The New Public Service*, respected government analyst Paul Light of the Brookings Institute states that, "The Federal Government's current hiring system for recruiting talent top to bottom overwhelms at almost every task it undertakes. It is slow in the hiring, almost useless in the firing, overly permissive in the promoting, out of touch with actual performance in the rewarding, and penurious in training." That is a pretty strong statement.

He goes on to say that the government should declare a human capital crisis, and I think that is what we do have, a human capital crisis, and that it is a crisis of staggering importance and one that merits immediate action among legislators and executives alike.

I think Mr. Light says it well, and I want everyone to know that the Subcommittee is responding to the human capital crisis he identifies. The Subcommittee intends to fully address the situation over at least the next 2 to 3 years because that is what it will take to start to make a real difference in the lives of Federal workers.

The General Accounting Office, Congress' nonpartisan auditing agency, observes in its 1999 draft strategic plan that, "While financial management, information management, and contracting and performance management have all been the subject of major reform legislation in the 1990's, no consensus has emerged on the fundamental structure or policy changes that may be needed to address the agency's management of their human capital."

The report goes on to say that human capital management requires a well-grounded analysis that continually links are agencies' human capital policies and practices through its missions and strategies, but that many agencies fail to make this linkage. The predictable result is that agencies are lacking the right people with the proper skills.

As part of the 2001 budget, which was submitted to Congress just over a month ago, the Office of Management and Budget placed human capital challenges on its list of priority management objectives to be implemented by the Office of Personnel Management. Although many have said, "It's about time." I believe it is a shame that it came in the last year of the administration. I would have hoped that it would have come sooner, because I know how long it takes to get things done. I know from my own experience in Ohio, it took us about 7 years to fully implement the strategies to deal with our human capital challenges.

Among its objectives, the Office of Personnel Management "will work with agencies to ensure labor-management initiatives to empower executives, line managers, and especially employees to improve customer service get mission results." I have to tell you, this sounds exactly like what we implemented in Ohio with Quality Services Through Partnership. The end goal of QSTP is to turn government into a high-performance workplace that focuses on external and internal customers, and it makes it possible by turning improvement into a daily undertaking that involves all of the employees.

I believe it is one of the most important initiatives I started when I was Governor of Ohio. I can tell you that many people, as I met them over the years, told me how our empowerment agenda got them excited about their job for the first time in years. Many of them said that the process that we used changed their lives. People wanted to come to work because they knew their knowledge and opinions mattered. QSTP reenergized the State workforce and the taxpayers are reaping the benefits.

I believe that this kind of change is possible on the Federal level with leadership and commitment from the top, and there are several agencies that have recently been brought to my attention where it is going on. Although the range of human capital challenges before the government will be described in detail by the Comptroller General and the Director of OPM, I would like to briefly mention some aspects which I believe must be aggressively addressed.

One, the government must attract people with the right skills, which will increasingly mean information technology skills, to provide services in the information age. We just had a hearing in the Environment and Public Works Committee with the Nuclear Regulatory Commission, and they are recognizing the importance of

training and that they need to integrate it into their total operations.

Two, how to attract people to government service in an era of tremendous economic prosperity and low unemployment. It is tough to get good people today.

Three, the government must position itself to hire new workers as the baby boomers who entered government service in the 1960's and 1970's retire in the hundreds of thousands during the coming decade.

Four, how can we ensure that Federal workforce downsizing is managed strategically to ensure that our need for experienced, skilled employees is not compromised and the government's ability to provide quality service is maintained and even advanced. For example, I suspect in some instances the employees most likely to take buy-outs are those the Federal Government can least afford to lose.

Five, the government must provide its employees with incentives and training which will maximize their talent.

And six, how does the government leverage partnerships with unionized Federal employees address these and other human capital challenges? I think this sixth issue is one that will make the most difference.

The bottom line is that Congress and the administration, managers and employees, must work together if we are to meet the human capital challenges of the 21st Century, and I hope we can start today.

I see that Senator Akaka is here. Senator, do you have an opening statement that you would like to make.

#### **OPENING STATEMENT OF SENATOR AKAKA**

Senator AKAKA. Thank you very much, Mr. Chairman. I want to commend you for holding this hearing. Your deep interest in managing human capital in the 21st Century certainly shows you are looking ahead on this.

As the Ranking Minority Member of the Subcommittee on International Security, Proliferation, and Federal Services, I am pleased to participate with you, Mr. Chairman, in today's hearing and appreciate the recognition that you and the Subcommittee have made and recognition that our jurisdictions appropriately overlap. I commend my colleague's interest in reviewing how the Federal Government manages its varied resources—especially its most critical resource—the Federal employee.

Today's hearing on managing the Federal workforce in the new millennium provides the Comptroller General and the Director of the Office of Personnel Management with an opportunity to broaden our knowledge of the issues surrounding human resource management in the 21st Century. I am well aware of Mr. Walker's commitment in this area, and I hope to learn from Director Lachance her views on the subject, as well.

Over the past 2 decades, there have been dramatic changes in the way personnel and related activities have evolved. Technological advances, shifting demographics, and renewed efforts by Congress and the Executive Branch to ensure an efficient and effective government have contributed to these changes.

Throughout the 1990's, legislation enacted by the Committee on Governmental Affairs has affected how the Federal Government manages its programs and assets, including its workforce.

The Government Performance and Results Act, which requires Federal agencies to develop strategic plans, performance measures, annual performance plans, and performance reporting, has transformed the way agencies do business.

I am hopeful that as we continue down the road of achieving results through improving management and performance, that employees be actively involved in these initiatives. It should be obvious that without employee involvement, improvement efforts instituted solely by statute or management will never have a lasting effect and stand little chance of becoming a part of an agency's culture.

These are exciting times for the Federal Government, and I am pleased that there are fresh views on how to improve management and performance within the Federal Government. However, there is much work to be done, and I look forward to hearing from today's witnesses, and again, I thank you, Mr. Chairman.

Senator VOINOVICH. Thank you, Senator Akaka.

We have a custom in this Subcommittee that we swear in the witnesses. I would ask our witnesses to stand and raise your right hands. Do you swear the testimony you are about to give before this Subcommittee to be the truth, the whole truth, and nothing but the truth?

Ms. LACHANCE. I do.

Mr. WALKER. I do.

Senator VOINOVICH. Let it be noted in the record that the witnesses answered in the affirmative.

I would remind you that your entire statement, of course, will be entered in the record. Normally, we request that oral statements be limited to 5 minutes, but as there are only two of you here today and in the interest of having as informative a hearing as possible, I would invite you to take some additional time if you think that is necessary.

Mr. Walker, we are glad to have you here with us today and I appreciate all of the time that you have spent with me. I am looking forward to working with you in the next several years to see if we cannot make a difference. I am anxious to hear your testimony this morning.

**TESTIMONY OF DAVID M. WALKER,<sup>1</sup> COMPTROLLER GENERAL OF THE UNITED STATES, GENERAL ACCOUNTING OFFICE**

Mr. WALKER. Thank you, Mr. Chairman and Senator Akaka. I appreciate both of you being here for what arguably is one of the most important issues that needs to be addressed in order to maximize the performance and assure the accountability of the Federal Government, that is, active management and appreciation of our most valuable asset, our people.

Mr. Chairman, I know that you, in particular, are uniquely positioned to address this, because having been Mayor of Cleveland, Governor of Ohio, and having been very actively involved in per-

<sup>1</sup> The prepared statement of Mr. Walker appears in the Appendix on page 27.

formance management at both the State and local level, that obviously gives you a wealth of experience to draw upon. I know based upon our prior meetings that the performance management area is one of your two highest priorities, and I know, Senator Akaka, that you care deeply about this, as well, and I commend both of you for being here.

Human capital management or people management is really the missing link in our attempts to achieve a high performance, results-oriented government for the 21st Century. There are three key enablers in order to maximize the performance and assure the accountability of any enterprise, whether it be in government, the private sector, or a not-for-profit entity. These enablers are process, technology, and people. People is clearly the most important of the three. In fact, people will be the key to attaining and maintaining competitive advantage in the 21st Century for any type of enterprise.

The Congress has addressed process and technology over the last 10 years or so through a variety of acts. In conjunction with process, the Government Performance and Results Act (GPRA) and the CFO Act are two examples. In the area of technology, the Clinger-Cohen Act and the Paperwork Reduction Act represent two examples. There has not been major legislative reform in the area of human capital, and frankly, while there is general agreement that this is an area that needs to be looked at, a consensus has not yet emerged as to what the proper approach should be and it will take time for us to get there.

Eventually, the needed reform will occur in order to provide more flexibility while providing protection for workers and better positioning the government to be able to get its job done in the future, especially to be able to consider skills and competencies in making human capital decisions.

But it is important that we not wait for legislation. There is much that can and should and, in fact, must be done within the context of current law and administratively by various parties. There is no time to waste. The Federal workforce is aging. The baby boomers who possess very valuable skills, experience, and knowledge are drawing near retirement. Job markets are increasingly competitive. Federal agencies are increasingly requiring more technical skills and a knowledge-based workforce that are very much in demand. Many agencies have been downsized over the last 10 years, and while they are smaller, in many cases, the results are significant skills gaps. Many agencies are out of shape, and they have got major succession planning challenges on the horizon.

Clearly, the Federal workforce, like all employers, needs to also deal with the need to look for a greater mix of full-time, part-time, and temporary workers. They need to look at flex time. They also need to look at job remoting and a number of other possibilities in order to be able to attract and retain a motivated and skilled workforce.

There are serious concerns that are emerging with regard to potential flight of knowledge from the Federal workforce because of retirement eligibility. There are serious shortcomings in a number of aspects of the human capital management systems of the Federal Government, in particular, the performance appraisal system



as well as the linkage to performance awards. These need re-engineering and in some cases reinvention in order to make them meaningful to both management and to the employees and in order to provide timely, accurate, useful, and constructive feedback to employees based upon clearly-defined standards. Effective performance appraisals tell employees where they are strong, and where they need additional emphasis. They also help you recognize and reward contributors, assure that you can help everybody, and enable you to deal with non-performers in a reasonably timely manner.

Mr. Chairman and Senator Akaka, candidly, change management and cultural transformation are major parts of this effort. GAO is the third Federal agency that I have headed, and I have also headed some private sector entities. As you know, my immediate position prior to becoming Comptroller General was as a partner and Global Managing Director for the Human Capital Services practice of Arthur Andersen, so this is an area that I have got a fair amount of experience and interest in.

In general, I find that many governmental organizations tend to be more hierarchical, more process oriented, more siloed or stovepiped, and more inwardly focused than they need to be for the 21st Century. We need to try to help effect a transformation, a cultural transformation, which will take years to try to move government toward being more partnerial, which means more empowerment, but more accountability. It means a more results-oriented style of management, focused on outcomes rather than outputs, more integrated, meaning that there is more working together in teams across borders, across boundaries, across departments and agencies, and frankly, across Congressional committees, and more externally focused in order to get the job done. Clearly, there needs to be greater linkage between human capital planning and strategic planning, and performance management is clearly an important element of this.

There are several key points that I would like to make. First, Federal employees should not be viewed as a cost to be minimized. They should be viewed as an asset to be appreciated. And like all assets, we should try to take steps to maximize the value but manage the risk.

In addition, we have conducted a study of leading private sector organizations on their human capital practices and we have identified a number of best practices to consider. I commend to you this report, issued in January of this year, that summarizes those practices.

Individual Federal agencies, as well as OPM and OMB, have a major role to play in taking the necessary steps to get us to where we need to be, and quite frankly, Congress has a major role to play in getting us to where we need to be, because ultimately, it is going to take the combined efforts of agency leadership, of OMB, of OPM, of the Congress, and of GAO and other accountability organizations to help us see the way forward and to make progress.

The first step is self-assessment and we published late last year a self-assessment guide in the human capital area. This guide is designed to help agency heads help themselves, and to assess

where they are and where they need to go in the critical area of people management.

Much remains to be done at the executive level by the central management agencies, OMB and OPM. However, we are encouraged in certain regards. First, OMB has recently announced in the President's fiscal year 2001 budget that the human capital area is a Priority Management Objective. It is getting higher visibility. It is getting more attention. However, it is going to take sustained attention over a number of years in order to get the job done.

OPM is creating a methodology and accompanying web-based tools in order to try to help agencies in their workforce planning efforts. These, too, are encouraging developments, but we need more and it is going to take a number of years and it is going to take sustained attention from the very top over a considerable number of years, both within the Executive and the Legislative Branch, in order to get this done.

We at GAO are trying to lead by example. We have conducted our own self-assessment. We have done extensive due diligence on ourselves and trying to make sure that we take all the actions that we can within the context of current law to make people a priority in order to deal with our size, shape, succession planning, and skills challenges. I am confident that, in time, we will be able to meet that challenge.

Last, but not least, Mr. Chairman, let me reemphasize that I think it is extremely important that Congress stay engaged in this matter. I think it is very important that Congress be committed and be concerned about this area. It is an emerging crisis, there is no question about it. And, in fact, based upon work that we are doing, I would not be surprised if the human capital area were deemed to be a high-risk area in January 2001. We are still doing the work. We have got some preliminary results. And quite frankly, some of those results are surprising.

Agencies such as NASA, and even some agencies that are viewed to be extremely well-managed agencies, such as the Social Security Administration, which has won a number of awards, have major problems right below the surface, major problems with regard to succession planning, major problems with regard to skills in balances, and other major challenges in this area.

So I think it is going to take sustained attention and commitment as occasions arise, whether it be oversight hearings, whether it be appropriations hearings, whether it be the confirmation process for leadership, or whether it be when agencies come up to the Hill and ask for exemptions from Title V. Agencies should be asked to come up with a business case, and to make sure that they have done what they can do within the context of current law, before they start asking for exemptions from Title V.

So again, I thank you both and I look forward to hearing Ms. Lachance's comments and look forward to being able to entertain any questions you may have. Thank you.

Senator VOINOVICH. Thank you.

Ms. Lachance, we are glad to have you with us this morning.

**TESTIMONY OF JANICE R. LACHANCE,<sup>1</sup> DIRECTOR, OFFICE OF  
PERSONNEL MANAGEMENT**

Ms. LACHANCE. Thank you, sir. It is wonderful to be here and I am very grateful for the opportunity to testify. Senator Akaka, thank you, too, for your attention to this issue.

I know, Mr. Chairman, this is a very important issue for you, and as you said, you have been a leader in this effort, both as a big city mayor and as a governor, and I think you probably have many lessons to teach us and we are looking forward to working with you.

I am pleased to have this opportunity to discuss the administration's plans to strategically and fully align the Federal workforce to support agency goals. It is good to see so many people discussing what we at OPM hold as a core belief, that the government's human resources, our people, are our most valuable asset. We must engage in the war for talent. That is, secure, develop, empower, and retain the talented people we need to accomplish our mission for the American people.

This is the foundation for OPM's strategic vision of human resources management. That strategic view is driven by dramatic change in two areas. The first is the way work itself has changed, particularly through the impact of the information revolution. Human resources systems that were designed for the stable bureaucracies of the 1950's and 1960's simply have to change to cope with the reality that we must all adapt or be pushed aside.

The second area of dramatic change is the shift from process to results and from merely following the rules to serving our customers. Agencies must be prepared to fully integrate human resources management with their mission critical initiatives. I believe this integration embraces the current emphasis on human capital.

I describe this effort simply as getting the right people with the right skills in the right jobs at the right time, and in the Federal Government, we must always add, and in the right way. This ensures that we honor the merit system principles, veterans' preference, and other important public policy and law.

For decades now, getting the right people at the right time meant doing our work according to Hoyle. Nowadays, it means doing our work in ways that contribute to achieving results and that difference has truly transformed human resources management.

When the President included strategic human resources management as a priority management objective in the fiscal year 2001 budget, he sent an important signal that people are our most important asset. This objective includes three critical actions.

First, OPM will help agencies strategically assess their human resources to ensure a quality workforce for the 21st Century. To do this, we will give agencies a workforce planning model that will help managers determine the kinds of talent they will need in the future.

Second, we will support all Federal employees as they strive to improve customer service and get mission results. They will be em-

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<sup>1</sup> The prepared statement of Ms. Lachance appears in the Appendix on page 49.

powered. In our unionized environment, labor-management partnerships are an essential vehicle for genuine empowerment, and that is why President Clinton recently reaffirmed his commitment to partnership. We have seen over the last 6 years that partnerships have cut costs, enhanced productivity, and improved the delivery of service to the American people. However, without continuous learning and an investment in training and development, empowerment is truly just an empty phrase. Up-to-date knowledge, skills, and abilities are critical for both organizational performance and individual employee success.

Finally, employee empowerment can only succeed when employees can balance their work and family needs. The evidence is in and it is clear—these programs foster greater productivity and higher worker morale.

As the third major action to meet the priority management objective, OPM will ensure that agencies have the tools to attract, manage, and retain the talented employees they need and we will encourage agencies to make better use of existing flexibilities to fit their specialized situations.

OPM has introduced a number of changes and flexibilities in the last 6 years. For example, we delegated to agencies the authority to assess applicants in order to bring the hiring decision and the recruitment action closer to the managers who must deliver the results. We also decentralized performance management, again, to allow agencies to design programs that work best for them.

But more change is needed. Today, most candidates for Federal jobs are assessed against a rigid set of qualification standards with narrowly defined skills. This system simply does not measure the wider and more flexible range of skills that are important to today's organizations. So OPM is designing a new system that will allow agencies to assess candidates against a broad range of job competencies.

We also hear from managers and job applicants alike that it takes the government far too long to hire employees. In the very near future, we will propose new hiring tools to bring the government's hiring practices in line with the realities of today's job market. In addition, OPM will continue to speed selection and hiring decisions by using technology OPM pioneered—the use of touch screens, phone applications, and now the Internet.

Have these technological advances helped? They absolutely have. The Census Bureau, just as one example, has been able to reduce the time required to hire computer specialists and statisticians from 6 months to as little as 3 days.

Of course, effective human resources alignment must also consider the compensation systems that help the government compete for talent in a tight labor market as we have now. We are currently looking at the entire structure of our compensation systems to see how they must change to support the government's mission today and well into the future. In the meantime, to give agencies more immediate assistance, we are working on a proposal that would enhance recruitment, relocation, and retention incentives.

Employee performance management offers another opportunity for aligning human resources management with agency goals by linking what employees do in their day-to-day work to the achieve-

ment of organizational results, customer satisfaction, and employee feedback. These are the balanced measures cited in the President's budget for fiscal year 2001.

Now, despite our hard work and our innovative plans, if we do not manage our people well and with compassion, our programs will fail. So we are working on a series of initiatives to ensure that the government selects and develops exceptional executives with the leadership expertise needed to meet the challenges of our new century. While it is the job of line managers and executives to deploy people to achieve an agency's goals, human resources professionals also play a crucial role as their expert advisors. At OPM, we are committed to helping agencies build a strategically focused human resources workforce.

In conclusion, Mr. Chairman, it should be clear that the Federal Government's most valuable asset is truly the talented and diverse women and men who work every day to make a difference in the lives of the American people they serve. Without attracting, managing, and retaining the right people in the right jobs with the right skills, no organization can perform its mission.

That concludes my prepared remarks, sir, and I have submitted a statement for the record, but I will be pleased to answer any questions you may have at this time.

Senator VOINOVICH. Thanks very much.

I read the report, "Human Capital: Key Principles from the Nine Private Sector Organizations," and about 40 percent of them had to do with quality management and the rest of them had to do with some other things. This was a report on successful private sector businesses. Do you, Ms. Lachance, have any kind of tools to ascertain whether or not a department is really doing a good job in terms of human capital?

Ms. LACHANCE. We use a number of ways to evaluate how an agency performs. We are so pleased to have received the input from GAO. We think it is very helpful. It has been presented to the President's management council and we will be moving forward to utilize the very important tool that General Walker has put together for us.

But in addition, we have a very important function at OPM which is to provide oversight to the entire Federal Government on human resources management. We have changed our focus on that oversight function. It is no longer punitive. It is not a "gotcha" game. It is not about finding mistakes and getting people in trouble. It is a productive dialogue that we enter into periodically with every major Federal agency and work with them to make sure that they are maximizing their human resources functions.

In addition, we have spent a considerable amount of time on a couple of other initiatives. First of all, we believe that it is key to have human resources strategically involved and aligned with the entire mission and performance of the agency. So we have actually developed a pyramid that is based on effective human resources practices and an efficient human resources profession and function at an agency, and then finally at the very top, the place where it all comes together, to make sure that everything is based on inert principles and that the human resources strategy is aligned with an agency's mission.

We have also, Mr. Chairman, done a significant study on the state of the human resources profession in the Federal Government and we have found there are skills lacking, that the human resources profession has suffered from being considered a support function in an agency. We are hoping to elevate the entire profession, advise agencies on the kind of training and skills that the human resources professionals need and urge every agency to have their human resources professionals at the table when they are developing their strategic plans and goals for the next several years.

Senator VOINOVICH. I would be interested in the methodology that your folks use when they go over an agency to determine whether or not they have the ingredients that are necessary to be successful from the human capital point of view—

Ms. LACHANCE. I will be happy to provide them.

Senator VOINOVICH. One of the GAO reports I reviewed said that you have to bring your human resources people right into the management and tie that in with a strategic plan for the business. You recognize that that needs to be done?

Ms. LACHANCE. Absolutely, and I will be happy to provide for the record the kind of evaluation that we conduct when we go on-site and work with you on that.

Mr. WALKER. Mr. Chairman, could I mention something?

Senator VOINOVICH. Certainly.

Mr. WALKER. As a follow-up, I think it is very important that we take a constructive engagement approach to this important issue, and that is what we are trying to do at GAO. For example, these two documents are not “gotcha” documents, they are “help you” documents. They are tools that people can use to help themselves address these issues, information of help them to assess where they stand as compared to other leading organizations.

Clearly, we at GAO are part of the Legislative Branch and clearly we are going to have evaluative responsibility, and clearly we are going to need to assess which agencies are doing well and which ones are not, but we do not just want to focus on that. We also want to focus on trying to help people get to where they need to be in order to generate the results that we all want.

Senator VOINOVICH. How long has that been out, that self-assessment?

Mr. WALKER. The self-assessment guide has been out since September 1999. Our best practice guide was issued in January of this year.

Senator VOINOVICH. Ms. Lachance, do you know if any of your directors have read that self-assessment guide?

Ms. LACHANCE. Everyone in my agency has, and I know that it has received some government-wide attention. We were fortunate enough to have General Walker come to the President’s Management Council, which as you know is made up of the government’s chief operating officers from every major department, and I think that was a good exchange. We have spent a lot of time discussing the checklist and I know it is being taken seriously across the entire administration.

Senator VOINOVICH. I would be interested in, again, what their response to it is and whether or not they think it is worth while for them to follow through. It is very interesting. I wrote a note

down here that I am going to do an assessment of my own organization.

Mr. WALKER. Mr. Chairman, I think that is an important point. We have used this to assess ourselves, and I think one of the things that I believe very strongly in is that we have got to practice what we preach.

Senator VOINOVICH. I think, Senator Akaka, you have somewhere to go and would like to ask some questions this morning, so we would like to hear from you.

Senator AKAKA. Thank you very much, Mr. Chairman. I have an unexpected scheduling conflict, so I thank you for yielding to me.

Mr. Walker and Director Lachance, I want to thank you for your testimony. I will be submitting, Mr. Chairman, other questions,<sup>1</sup> but let me ask this one. Mr. Walker, you mentioned the quality management tools noted in the blue pamphlet, which emphasis results. Are there tools in place to ensure that measurements used to assess the performance of the Federal Government and its regular workforce are adequate for the Federal contract workforce?

Mr. WALKER. I think more needs to be done in this area, Senator. Part of this relates to the Government Performance and Results Act. Obviously, as part of the Government Performance and Results Act, in addition to the strategic planning exercise, there is supposed to be an effort to come up with performance measures, performance measures that are not just focused on outputs but also outcomes. Some agencies are doing better than others in trying to come up with ones that are relevant and understandable to the Congress and to the public.

I think once that is done, then these measures have to be linked to the performance management system for evaluating your people at all levels, both individually and as teams, to make sure that they are linked with the measures that you are trying to promote for the organization as a whole. So I think we have got more work to do in that area.

Senator AKAKA. Is there any indication of any agencies using these tools?

Mr. WALKER. Yes. Actually, we have had quite a bit of interest in the self-assessment guide. As Director Lachance mentioned, I had the opportunity to go and meet the President's Management Council. There was a significant amount of interest in this topic. There has been a lot of interest, frankly, even beyond the government in this topic.

I find that when I go out and visit on the front lines with agency leadership, I find that the human capital challenge resonates. I remember being at NASA, at the Johnson Space Flight Center. They were there to brief me on the space station and on also the new technology to replace the shuttle, yet when I talked to them about human capital, a great deal of motion came out because they face so many challenges in this area and they felt that it has been so sorely needed to place more time and attention on this area.

So yes, we are getting a lot of attention and we are hopeful.

<sup>1</sup>The questions and responses from Mr. Walker and Ms. Lachance appears in the Appendix on pages 74 and 77 respectively.

Senator AKAKA. Thank you very much. Thank you, Mr. Chairman, for giving me this opportunity.

Senator VOINOVICH. You are welcome.

Senator VOINOVICH. There is a lot of talk today in some of the agencies like NASA and other agencies that need new skilled workers, particularly in the area of technology. There is some consideration being given to legislation which would allow for early retirements of individuals. For example, last year, we tried to get legislation to deal with the challenging problems that we have at Wright-Patterson Air Force Base in their research center. We were not able to get it through because it was felt that you should not just select one agency or facility to do that.

I would like to know where your agency stands on legislation that would make it possible, across the board, to allow agencies to start looking at authorizing early retirement to make room so that they can bring in some new folks that they really need. In some instances with older workers—I found this in State Government—where you had early retirement and you lost them, you wondered whether you would be able to replace them, you saved some money and brought in new people, but you just sometimes wonder how much you benefitted from it. But overall, my experience has been that it has been good.

But we do have Federal agencies today that really need to bring in some new people and are unable to do it and need this kind of flexibility. I am just wondering whether or not the Office of Personnel Management would support legislation of that sort.

Ms. LACHANCE. Well, as a matter of fact, Mr. Chairman, the President's budget actually urges Congress to enact early-out authority and buy-out authority to use as a workforce shaping tool, not just as a tool to downsize, which I think is an important distinction. In the past, we had used those two authorities to shrink our workforce. Now, I think we have to get a little bit more sophisticated and realize that we have skills imbalances, that we need perhaps different kinds of competencies as we enter the 21st Century. So we would be thrilled to work with you on something like that.

You rightfully noted, and I would like to confess at this point, I do have a concern about flexibilities for just one particular agency unless that agency can make a case that it is so different from all the others that it should not apply to the entire government. I just do not want to create a government of haves and have nots and have some agencies with a lot of flexibility and ability to really meet their mission, while other maybe less popular agencies or the ones that do not have perhaps as compelling a mission as someplace like NASA would still be struggling under some of the older rules and restrictions. So I would be thrilled to work with you on that kind of legislation.

Senator VOINOVICH. Yes, Mr. Walker?

Mr. WALKER. Mr. Chairman, I think this is critically important. You put your finger on a very important issue. In the past, to the extent that early-out authority or buyout authority has been granted, as Director Lachance said, generally, you had to give up the slots, and therefore you did not really gain that much from it.



We have a lot of agencies that are out of shape, that face major succession planning challenges, that have not hired for years, that need to reinvigorate their organizations, that need to be able to attract certain skills, and to be able to gain reasonable flexibility while, with appropriate protections and safeguards, to be able to use that to realign or reshape the organization.

One other thing, Mr. Chairman, that you touched on earlier: You talked about how difficult it is to be able to attract people now, given the current economy, and the compensation differentials have grown greater over the years between the private sector and the Federal workforce. But in addition to that, the debt loads that many individuals have as they come out of college are much greater than they used to be, and in cases of agencies like GAO and NASA, where most employees have masters or doctorates, the debt loads that they have are considerable.

I think one of the things that we need to think about is if the Defense Department can end up giving incentives for debt relief for selected hires, why cannot certain civilian agencies be able to do that, too, especially in conjunction with realignment, reinvigoration, and the need to acquire certain critical skills. I think it is something we need to think seriously about, which, frankly, could be very helpful and could be done on a tax-favored basis that might help reduce our competitive disadvantage.

Ms. LACHANCE. If you do not mind, Mr. Chairman, we do have some thoughts on that very issue and would love to hear your views and work with you on developing that kind of proposal.

Senator VOINOVICH. The average Federal employee is 45 years old. In 10 years, he will be eligible for retirement. Nine-hundred-twenty-three-thousand Federal employees, more than half, are between 45 and 69 years of age. Five-hundred-and-seventy-five-thousand Federal employees are between 50 and 69, meaning that over 30 percent of the workforce is either eligible for retirement or will be within the next 5 years.

It seems to me that there are aspects of this that really need to be thought out in terms of long-range planning and we ought to get on it ASAP. One aspect of it is that many Federal employees are going to be retiring and how do you replace them. Another issue is, in highly technical job areas, how do we compete with the private sector? How do you attract the people that you want so that you have the workforce that you need?

The other is an immediate problem, and that is the issue of how do you provide for early retirement for those that would like to leave the service, save that slot, and then bring new folks into the organization. From what I understand, the Office of Management and Budget has taken the position that they do not want to get into this because of the fiscal impact of the early retirements, they are concerned that it is going to cost the Federal Government too much money to do this.

The point I am making is, is anybody sitting down and really looking at all aspects of this to determine where we are going? We are going to have a new president next year and that president is going to be faced with some tremendous challenges. The job right now is to identify those challenges that need to be addressed so that they do not get lost in the shuffle when the new administra-

tion comes in, because you know and I know that it takes a while for that transition to occur, even if, say, Vice President Gore is elected.

Even in that case, you are going to have a lot of change. People are moving, coming in, and so on, and somewhere, this has got to be elevated in terms of a real crisis that needs to be addressed. I would be interested, are you doing anything in that area, either one of you?

Mr. WALKER. Well, first, I can tell you what we are doing, Senator. We are doing work right now on retirement eligibility for the Senior Executive Service to try to get a handle on that. We are also doing work on critical occupations. We are asking the major departments and agencies to identify what they deem to be their critical occupations and where they stand with regard to their needs versus what they have on board. Obviously, we are trying to increase the visibility of the issue and encourage greater action both in the Executive and the Legislative Branch.

I do think that if we end up putting this on our high-risk list, and it is early yet, we have not made that final judgment, but I think there is a good possibility that will be the case, that historically has gotten some attention. That has gotten some attention both in the Executive Branch as well as the Legislative Branch, although we need to make sure that we have the appropriate support for it. But I do not have a whole lot of doubts that we can do that.

Ms. LACHANCE. And Mr. Chairman, if I could, I want to assure you that OPM is, in fact, performing the role that you outlined here. We are thinking strategically about this problem on a holistic and comprehensive level. We may be slicing it up in terms of finding solutions, but our thinking, our approach to the issue is extremely comprehensive and I think you will be pleased with the results of our work.

I think there is an important point to make, as well. The statistics that you cited, I think really transcend the traditional political calendar that we are all used to operating with here in Washington, DC. This is an election year, but I think that everyone now realizes, everyone in leadership positions across the Executive Branch understands that these numbers are real, that they are catching up to us, and that they have to act.

We have a number of initiatives on the way that are going to, we believe, help the agencies do a good job at it. Sort of the centerpiece of that effort is our workforce succession model, which is going to be an e-enabled, web-based effort to provide agencies with an unprecedented amount of data and access to statistics than they have ever had before. They are going to have the ability, Mr. Chairman, to compare their own situation in their agency with not only the government-wide numbers but also private sector numbers from BLS and from the Census Bureau, and also to assess what kind of talent is available in the educational pipeline.

So we are hoping this is going to help people shape their thinking on these issues. In addition, it is going to allow them to run some "what if" scenarios so that they do not have to start down the road, take on a lot of risk, invest a lot of resources into a particular strategy and then find it is not working. We are hoping this

tool will help them do that, and we are hoping to have that ready as soon as possible. It is one of our major priorities.

But even beyond that, we are taking a complete look at the compensation systems. We have an entire unit dedicated entirely to that effort, and that is not only looking at pay but also benefits to make sure that we keep up with the private sector in that area, as well.

So we are looking at that. We have an entire effort on the Senior Executive Service. We have come up with a leadership pipeline that provides training for people, virtually at the GS-11 or GS-12 level, once they have been identified as potential leaders, all the way up through when they get into the Senior Executive Service, and we are not stopping there because, obviously, once you get into the SES, you still have to keep learning.

So we have established a learning center which is going to focus on training opportunities for the SES and also encourage mobility, which we believe is a key factor in people keeping up their skills and learning different ways and approaches to getting results for the American people.

I am also pleased to chair, Mr. Chairman, the President's Task Force on Federal Training Technology to assist in Federal employee training, where we are looking at some innovative approaches using technology, including some pilot programs on individual learning accounts where each employee can have a voice in their training at the Federal worksite.

So we are very excited about the potential of all of those tools and we think that it is going to be a strategic, comprehensive approach to this very important crisis that we are facing.

Senator VOINOVICH. Well, I do not mean to be critical, but it is late in the game, and from a practical point of view, if I were in your shoes right now, I would be putting together transition manuals, and I hope the Federal Government does that. In Ohio, I know we were already well underway with transition manuals for the next administration, prepared for whoever.

But the fact is that somebody ought to be really concentrating on human capital at the agencies. There is a GAO self-assessment guide, and somebody should be identifying the human capital problems and prioritizing the areas that have to be immediately addressed when the new administration takes office.

Second, the Federal Government has not done a job classification since 1978. If you talk to the presidents of the respective unions, as I have, they think it is terrible. Now, job classification is tough. Part of the problem is that the current classification system is not flexible enough, people are in the wrong classification, and it is out of whack. I think that the next administration better come in and start looking at this issue, because maybe it is one of the reasons why we are not as competitive as we should be.

One of the things around here that gets me is that there are periods of time when you do certain things. You can get started with some new initiatives this year, but the next administration is going to come in and they are going to have their own ideas. I am just going to say this to you. If you really want to make a contribution to this area, I think for the remainder of the year, you should conduct a government-wide appraisal of human capital. You will find

that you have got some wins and you have got some losses, and it would show that you care about these agencies.

You could then give this appraisal to the next administration and say, hey, you had better start paying attention to this. I mean, the issue of training, it is terrible. Just talk to your union presidents. The training is not there. The training budgets have been reduced in many areas. The incentive program, where is it? Quality management, again, not there but for a few agencies.

So those are some of the things that ought to be looked at, and the other thing is the issue of, and I will yield momentarily because Senator Durbin is here and I am sure he would like to make a statement or ask some questions, but how do you, from an administrative point of view, make sure that human capital does not fall to the bottom like it always does, and that goes for this administration and for administrations in the past.

The problem is that when the new secretaries and assistant secretaries come in, they spend most of their time worrying about their budgets, have very little time to do anything else, and management just gets shoved to the side. You have to have some mechanism, either in the Office of Management and Budget or elsewhere, and you might just want to think about it with your colleagues, where would we put this issue to make sure that when the next administration comes in, this gets the attention that it really needs. We probably need it now more than ever before in light of some of these statistics.

Ms. LACHANCE. If I could, Mr. Chairman, the fact is that we are a very small agency and we did not start these efforts this year, in the last month or even since General Walker gave us some of his tools and his thinking on it. The fact is that we have been thinking this way for several years now and we could not be at the point we are at with some of these tools and some of the thinking that has already gone into this subject if we had not started in 1993 essentially redesigning ourselves, first of all, as an agency so we could serve as a model employer, and then looking to the rest of the government as to how we could be most helpful to them in the challenges they are facing.

But I also would like to maybe disagree with you on one small point. I do not think we have a year to concede to this problem. I think that this is a critical issue. These numbers are catching up with us. Every day, they are getting worse. Every day, the Federal Government ages. Every day, more Federal employees are eligible for retirement.

I am going to keep working for the rest of this year on this and I think that in these next several months, we can make a lot of progress in these efforts. I would love to join with you on this effort. I agree that the transition is important. I am going to focus on that, as well. But I also think that we can also get a lot done between now and January on the PMO, on some of the things that have been identified in there, on increasing partnership, labor-management, on getting our workforce succession planning tool in shape and ready to go for people to use no matter who is President, in using, as General Walker has said, the flexibilities that are already on the books. So I am going to keep working on it.

Senator VOINOVICH. Well, I would not want you to put aside the pressing problems that you have. You have to run your agency. I am just saying, you have X-amount of time, you have X-resources, and you have to decide where can you put in your resources to get the most return on their investment. That is all I am suggesting.

Senator Durbin, would you like to make a statement this morning?

#### **OPENING STATEMENT OF SENATOR DURBIN**

Senator DURBIN. Thank you, Mr. Chairman, and thank you for this Subcommittee hearing to focus our attention on the Federal Government and to really determine what we should be doing to manage, empower, and value its greatest assets, its workforce of 1.8 million dedicated men and women. I appreciate your commitment to work on this issue and I have a complete opening statement which I would like to make part of the record at this point and in the interest of time, just ask a few questions.

[The prepared statement of Senator Durbin follows:]

#### **PREPARED STATEMENT OF SENATOR DURBIN**

Thank you, Mr. Chairman, for scheduling this morning's Subcommittee hearing to focus our attention on how the Federal government is—or should be—managing, empowering, and valuing its greatest asset—the 1.8 million dedicated men and women who serve the public as Federal employees. I appreciate your interest and work on this issue.

As you have pointed out, the Federal Government faces a host of serious demographic and fiscal challenges in ensuring a vital workforce for the next few decades. The reality of today's marketplace is that there is strong competition for talent, and the public sector must vigorously compete with the private sector for human resources with increasingly complex skills.

The advent of new technologies that we may not have fathomed even a year ago, creative ways of organizing work, alternative means of delivering public services, and an increasing reliance on a temporary workforce have redefined the nature of public work. However, the structure and systems for acquiring and developing human capital have not necessarily kept pace.

I look forward to hearing the insights and guidance of our distinguished witnesses, Mr. Walker and Ms. Lachance, who have been asked to share their perspectives about what Federal agencies should be doing to ensure that our greatest asset—today's and tomorrow's Federal service—is equipped with the flexibility, vitality, and focus to deliver top-notch services to the American public.

Senator DURBIN. First, an observation. Ms. Lachance refers to this war for talent in her statement. I run into this, I am sure that Senator Voinovich does, as well. Just to give you an illustration, within the last 6 weeks, the major law firms in the City of Chicago have decided that in order to attract the best law school graduates to come to work for them, they have to offer \$130,000 a year because otherwise they are going to lose them to dot-coms and you name it. They do not have a chance.

At the same time, and this was a source of great celebration at a lot of the favorite watering holes of Chicago, all the first and second-year employees in their firms got \$42,000-a-year increases, so they were out celebrating for quite a bit.

Well, what does that mean? Well, congratulations if you happen to be at the top of your class at Harvard or University of Illinois or Chicago or whatever it happens to be and you happen to go to one of those law firms. But let me tell you how it also plays out. When I put an ad in the paper and say I would like to see which

lawyers would be interested in becoming Federal District Court judges in the Chicagoland area, the Northern district area, with tens of thousands of lawyers, I had 12 applications. The job pays \$139,500. I think that is roughly what we are paid, the same level. It has stature. It has a great pension system. It has all of the above. But surely it is not keeping up with the real marketplace.

I sense that in many respects in attracting the talented people that we need in so many areas of the Federal Government, we are running into the same thing. If we are not going to be salary competitive, we are going to find ourselves attracting some good people prepared to sacrifice for public service, but not even catching the attention of a lot of others who have a great deal of talent but are not prepared to make a fantastic economic sacrifice to serve our government. Is that your impression, General Walker?

Mr. WALKER. It is a major problem, Senator, and I think we have to recognize several things. First, why do people come into government? That is one of the questions that I have asked all our employees through a survey. Why did you come to work for government? And in many cases, they came because they want to make a difference, because of the balance of work and family, because of the challenge of the work, and because of the rewards of public service. Clearly, money was not one of the reasons they came to government.

On the other hand, what we are finding is that it is a new ballgame now because the people we surveyed at GAO were hired 10 years ago, 15 years ago, 20 years ago or more, because we had hiring freezes for 5 or 6 years in the 1990's. The kind of people that are coming out of college now and the kind of opportunities they have, it is a whole different ballgame.

I think we need to look at it from a variety of perspectives. One, there are only certain people that are going to be interested in working in the government to begin with, and we have got to identify those. But second, we need to also be able to say, what can we do to enhance our hiring opportunities? I mentioned earlier in the hearing that a lot of people that we hire and other agencies hire have master's degrees or Ph.D.s and they are highly sought after. Not only is the compensation differential a problem, but the debt burden is a problem.

One of the things we ought to be thinking about is whether or not we can give some debt relief. The DOD does it. Why can we not do that for critical occupations in the civilian workforce, and we could do it on a tax-favored basis and that might help to shift the equation here and attract more people.

Further, why can we not look at our compensation structures and start compensating more for skills and performance than for more tenure? I think it is something we need to think about doing. Now, we obviously have to be careful about it. We need to make sure that we have got protections, that it is not discriminatory and things of that nature. But I think we need to fundamentally step back and reassess our approach, not just for the new people that we are trying to get but for the people we already have.

I am on the front lines on this. I am going to Florida A&M next month. I am going to Cal-Berkeley. I went to the University of Texas and I am trying to attract promising new talent. So I think

we need to step back and ask ourselves some of these questions. We are going to have to do some things differently, I think, if we are going to compete in the future.

Senator DURBIN. I think the image of government service when I was graduating from college was the following: It does not pay as well. You are going to be in a lot of offices with battleship grey desks and filing cabinets. But you have job security and a lot of holidays and a great pension when it is all over. That was kind of the package. Take your pick. What is your view on life? Maybe that is an oversimplification, but that was an image that a lot of my fellow students shared.

I do not know if that is an image that can sell the product today. I think a lot of people are willing to take a little more risk in their life if the reward is there, and if we do not build that into government service, as you suggest, we are going to lose some of these creative people who might just otherwise be willing to make that economic sacrifice.

Mr. WALKER. I think the other consideration we have, Senator, is that job security is not what it used to be. When you look at all the downsizing that has occurred in this last decade, one thing we have to keep in mind is it is not only the entry-level people that have been affected. One of the things I think we have to recognize is that there are a lot of early retirees who have a lot of skills and who want to do something for their country. We ought to be taking advantage of these skilled people. We ought to be going after them to try to see if we can get them in to make a contribution to their country, as well.

Senator DURBIN. Ms. Lachance and General Walker, have you taken a look at this college debt forgiveness? We do have college debt forgiveness. Ironically, Mr. Chairman, we have college debt forgiveness for those who want to be prosecutors but we do not have college debt forgiveness for those who want to be defense attorneys. It tells you something, does it not?

But let me ask you, could you give me, or do you know a break-out of the areas where we have college debt forgiveness in our law?

Mr. WALKER. I do not know it off the top of my head. Director Lachance may. It is an area that she mentioned that they are looking at.

Ms. LACHANCE. Senator, we are actually working on this very issue. The legal authority is there. There is obviously a budget implication, a very serious one, and so we are working with other agencies to develop regulations to implement this on a broader basis than where they are utilizing it now.

But I know one of the places, I was a keynote speaker at the Army JAG school down in Charlottesville and they just got the authority and they had a lot of interest in talking to me about how to apply it and what kind of service contracts and requirements they should have for it.

So it exists. I think we could do it and we are working on it, and so hopefully we can come up with a way to do it that is equitable and fair and that gets at this recruitment issue.

Senator DURBIN. If the Chairman is interested, I will certainly follow his lead, but I would like to get into this.

Ms. LACHANCE. Right.

Senator DURBIN. I would like to figure out where the debt forgiveness programs are and whether we can identify critical areas of need in Federal employment where we can create incentives for people to consider public service.

When you went to the major corporations and looked for the best practices, I would assume that many of those corporations had spent some money in developing their concepts, in other words, went beyond the theoretical in reading the books and writing it down and probably engaged focus groups, a lot of interviews, tried to cull from the prospective applicants to their corporations what they were looking for, then went to their employees who stayed on and did a good job and said, what does it take to keep you here? Why did you stay and why did you not leave? Have we done anything comparable when it comes to Federal public service?

Mr. WALKER. I cannot comment for the Executive Branch. I can say that we are doing those things at GAO. One of the things that we have done is to survey all of our employees. We got an 87 percent response rate, which is incredibly high. Eighty percent of the persons provided supplemental written narratives, of which I read every one, 678 pages. We had a number of focus groups. We have a number of other outreach efforts under way in order to try to find out from people what they like, what they are concerned about, why did they come here, why did they leave, and so I think that is critically important.

I think another thing that you mentioned, Mr. Chairman, which is relevant here, too, is investments. Sometimes you have to make targeted investments in order to be able to get to where you need to be. One of the things that suffered in the 1990's was training budgets which in many cases were absolutely slashed. Training is an investment in the future, and I think we need to do some reinvestment there.

Ms. LACHANCE. Senator, if I could, we have done a number of studies on some of these issues, and not only talked to Federal employees and surveyed Federal employees through our organizational assessment survey and through the National Partnership for Reinventing Government's employee survey, but we have also talked with some of the colleges and universities, conducted focus groups with students who were thinking about what kind of career to have, and we have found a number of things.

The compensation issue is always going to be a problem and it is always going to be one where we cannot compete, or probably cannot compete, barring any dramatic change. But what we are finding is that the people with the skills we need are looking for a more total picture, a more comprehensive picture of a work environment than just pay. They are looking for family-friendly policies, the ability to balance their work life and their home life. They are looking for training. They want somebody to make a commitment to them and help them with continuous learning because they recognize, probably better than those of us who are a little older, that the world of work is constantly changing and you constantly have to update your skills.

They want to be in an environment where their contribution is recognized, and that is another key area that we are looking at in our overhaul of the compensation system. How do you recognize top



performers? I think in the Federal Government, we do ourselves a disservice by focusing very often on poor performers. The fact is that there are a number of outstanding performers and we have to find a way to distinguish them beyond even what is available now, which are some very significant bonuses and opportunities for bonuses and Presidential rank awards, but there has got to be more and there has got to be a more comprehensive approach to that.

So we are finding that it is a much bigger picture than just the paycheck and we are trying to adapt that as we look to the kind of people we are trying to attract.

We are also getting away, and I mentioned this in my testimony, getting away from the strict skills-based approach to hiring. You know, we used to hire an accountant, for example, by saying you had to have 24 hours of accounting courses in college. That does not tell me or any other manager how that person is going to perform in the job. What we have to do is move to competencies, get beyond the very strict technical skills, move to someone's ability, for example, to work in a team, someone's ability to learn and relearn and adjust to change. That is the environment we are faced with and that is what we are going to be able to measure in the very near future and base our hiring decisions on those competencies.

Senator DURBIN. I want to make an observation here and I want to exempt the Chairman from my observation because he is relatively new on the scene here. But I think one of your single biggest problems is the U.S. Congress when it gets right down to the bottom line, the businesses that you have talked to sit down at the highest levels and develop a team concept and say, now let us execute it and we are going to try to prove to the shareholders it was the right decision.

Just about the time you have developed your team concept, you have to come up with an appropriations bill and then you have to go through the GAO studies and then you have to go through all of the scrutiny and oversight which is part of our governmental system, and if it ends up looking like a skeleton of the original concept, it probably is after everybody has had a crack at it.

I have seen over the years, and just in most recent memory in the last 6 or 8 years, a shameless scapegoating of Federal employees on Capitol Hill. This concept of an army of clerks, costs to be cut, some of the things that you have noted here was repeated over and over and reached its extreme when we had a government shut-down and a lot of people said, who will ever notice? If we closed it down, who will ever notice? Mr. Limbaugh notwithstanding, people did notice, and that may have been a turnaround moment in our history. I hope it was.

But it just strikes me that if we are going to ask you to attract the best and brightest and keep them, we have to really grow up, too, in our attitude toward the Federal workforce. We have cut back dramatically in size over the last 6 or 7 years, putting more burdens on those that remain and creating uncertainty, I am sure, in their minds about their futures. We have not invested in training, which you have noted to be one of the major elements that needs to be encouraged if good people are going to come and stay.

And we have not given you the flexibility to manage many areas where you needed to. We pushed our oversight to an extreme.

Let us just for a moment focus on the whole question of contracting out and privatization. I can recall a conversation in the Appropriations Committee where there was a suggestion about privatizing a function of a Federal agency and I said, I just want to put an amendment that says we should not do this unless we are going to save money, and the people said, no, you do not understand. We want to privatize. Saving money is not the goal. We want to privatize. And when that mindset is running rampant on Capitol Hill, no one is safe because you are not really judging anybody by performance or cost to taxpayers. You are just bound and determined to reduce the number of FTEs at any cost, and frankly, we have sacrificed that in the process.

So I think we in Congress bear a major part of the burden, I guess the blame, for where we are today with Federal employees. I think we could change it, but it is going to take some visionary thinking to realize that if we do not, some of the predictions about losing some of the best people are going to come true and then we will have to answer to the country for it.

Senator VOINOVICH. Senator Durbin, I would like to say to you that I agree with what you have said here. I want you to know, and I am going to say this publicly, I am sticking with this for the next 2 to 3 years. I am not going to let up on this. We are going to have hearings on training. We are going to have hearings on incentives. We are going to have hearings on quality. We are going to get into all of these issues and raise their profile.

We have to talk about the shadow government that is out there, the result of privatization. You have reduced Federal workers and hired the private sector and there is little or no oversight of the individuals. It is just a kind of a game because everybody wants to show at the end that we have fewer employees, but, in fact, we do not have fewer employees in most instances, except in the military.

It is going to take people like you and me to stand up and say, these agencies have to have the people and the wherewithal and they have to be competitive if the government is going to provide decent services.

We were talking earlier about the issue of early retirement. We have a real personnel problem at the labs at Wright Patterson Air Force Base. They have to hire some new people. The Air Force requested the authority to offer early retirement to some individuals that would then free up some slots and some money so that they could bring in new people. The proposal was turned down because it was agency specific. We are looking at maybe doing this more uniformly across the Federal Government.

There is the issue of, which you just mentioned, college education. I just got a note from staff that said that agencies already have the authority to provide debt relief to employees. It is not exercised often because of high cost. Now, this legislation I mentioned which allows for early retirement, OMB is concerned about it because of the high retirement costs when these people leave early. The government is going to have to pay retirement annuities out sooner. And then they have these new folks coming in and it is going to affect their budgets.

But if it is the logical thing to do in order for them to get the people, then they should be doing it and we should welcome that. The people are the most important part of this government.

Senator DURBIN. I agree, and that means just changing our mindset. I applaud the Chairman for his leadership.

Mr. Walker, did you want to make an observation?

Mr. WALKER. Senator, yesterday, I gave a speech before the Council for Excellence in Government and it was about how to improve government performance and enhance public trust in government. A number of the comments you made were echoed in my remarks. I think the Congress is going to have to do some things differently in order to achieve those objectives, as well. I am encouraged that the Chairman has made a commitment to keep at this for several years. I know you and other Senators will be part of that process.

Regarding contracting out, I think there is a linkage, quite frankly, to some of the challenges we face in human capital, because what we find is that all too frequently, people spend a lot of time and effort determining what and to whom are they going to contract out, but then they do not have adequate skills internally to manage contractors' cost and quality. The contractor is on autopilot and therefore we get in trouble.

So these issues are inherently linked in many different ways. I have heard everybody say, and I think rightfully, that people are our most valuable asset and that we face some serious challenges and they are known challenges. I think we need the flexibility. I think we need additional visibility and support. And we may need some targeted resources to try to help us get to where we need to be.

Senator VOINOVICH. Thank you.

I just have a couple of anecdotes. When I came in as Mayor of Cleveland, we established an operations improvement task force. I had the private sector come in and they spent almost a year going out into agencies, and actually not telling them what to do but just getting their ideas on how they could improve things. The city had farmed out data processing to a firm and the private sector people said, you are so far behind in systems, it is unbelievable. Well, the company that we had hired wanted so much money to develop new systems that it did not happen. The private sector advised us to get rid of them and bring people in-house, and that is exactly what we did. It took a couple of years and we got back on track and we are competitive again.

When I was a county assessor, they had farmed all the appraisal work out to a private firm. We did not have the people in-house to do our annual maintenance work nor did we have the people in-house to tell me whether or not these private sector people were ripping us off or not.

I think that there is too much of this, where you just hire somebody from the outside, and before you know it, you are stripped down of the talent that you need in your agency to make intelligent decisions.

We want to thank you for coming here this morning and I look forward to continuing these hearings and working with both of you

to see if we can make some progress on this very, very important issue. Thank you very much.

Ms. LACHANCE. Thank you, sir.

Mr. WALKER. Thank you.

Senator VOINOVICH. I would like to insert into the record a statement from Deidre Lee, the Acting Deputy Director for Management at the Office of Management and Budget.<sup>1</sup>

The Subcommittee is adjourned.

[Whereupon, at 11:25 p.m., the Subcommittee was adjourned.]

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<sup>1</sup>The prepared statement of Ms. Lee appears in the Appendix on page 71.



# APPENDIX

GAO

United States General Accounting Office

## Testimony

Before the Subcommittee on Oversight of Government  
Management, Restructuring, and the District of Columbia  
Committee on Governmental Affairs  
U. S. Senate

For Release on Delivery  
Expected at 10:00 a.m. EST  
Thursday  
March 9, 2000

## HUMAN CAPITAL

### Managing Human Capital in the 21st Century

Statement of David M. Walker  
Comptroller General of the United States



GAO/TGGD-00-77

Statement

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## Managing Human Capital in the 21<sup>st</sup> Century

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here this morning to contribute to the Subcommittee's discussion on how to improve the federal government's approach to managing its people. The federal government counts some 1,882,000 people as its employees.<sup>1</sup> They comprise a diverse and increasingly knowledge-based workforce, with a broad spectrum of technical and program skills and institutional memory. Federal agencies differ in size and mission, but they share a common reliance on the energies and ingenuity of federal employees. These employees are the government's greatest asset—its human capital.

The landmark federal management reforms of the 1990s signaled the arrival of a new era of accountability for results. These reforms addressed most of the essential—and mutually dependent—elements of the modern performance management model: financial management, information technology management, and results-oriented goal-setting and performance measurement.

The transformation that these reforms entail will not be an easy one, and will require a governmentwide investment of time and resources that should not be underestimated. However, the return on this investment is potentially very great. These reforms, with their focus on accountable, results-oriented management, will allow the federal government to go beyond attempts merely to identify or prevent incidents of waste, fraud, or abuse and, instead, create a government that is better equipped to deliver efficiently, economically, and effectively on its promises to the American people. There will always be zero-tolerance for waste, fraud, and abuse, but the cost of these occurrences is small compared with the larger costs—not just in money, but in public trust—of a government that is not managed well. Once results-oriented performance management systems are effectively implemented, agencies will have the means to demonstrate the real-world effects of their efforts, and taxpayers will be able to judge federal agencies' accomplishments across a range of measures and decide whether they are getting an acceptable return for their tax dollars.

As the federal performance management framework has evolved over the last decade, the government's human capital management has emerged as the missing link. For the performance management principles embodied in the new reforms to produce a more businesslike and results-oriented

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<sup>1</sup> The total is for non-postal civilian federal employees as of September 1999. Source: Office of Personnel Management.

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government, agencies must recognize the indispensable role of people in this transformation.

For performance management to succeed, three enablers will be needed: people, process, and technology. All three are important, but the people dimension is the most crucial. Process was addressed by the Chief Financial Officers Act and related financial management legislation, as well as by the Government Performance and Results Act (GPRA). Technology was addressed by the Paperwork Reduction Act and the Clinger-Cohen Act. The people dimension has yet to find the broad conceptual acceptance or political consensus needed for fundamental reform to occur. I am optimistic that as our understanding of the importance of people to effective government grows, a new consensus on human capital will emerge and any needed and appropriate legislative reforms will be accomplished. But I am also strongly convinced that we should not wait for the day when these reforms will arrive. Instead, we can and should take steps to align our human capital management policies and practices with modern performance management principles, within the constraints imposed by current law.

There is no time to waste. Changes in the demographics of the federal workforce, in the education and skills required of its workers, and in basic federal employment structures and arrangements are all continuing to unfold. The federal workforce is aging; the baby boomers, with their valuable skills and experience, are drawing nearer to retirement; new employees joining the federal workforce today have different employment options and different career expectations from the generation that preceded them. In response to an increasingly competitive job market, federal agencies will need the tools and flexibilities to attract, hire, and retain top-flight talent. More and more, the work that federal agencies do requires a knowledge-based workforce that is sophisticated in new technologies, flexible, and open to continuous learning. This workforce must be adept both at delivering services directly and at effectively managing the cost and quality of services delivered by third parties on the government's behalf. Agencies' employment structures and working arrangements will also be changing, and the workplace will need to accommodate a greater mix of full-time, part-time, and temporary workers; more contracting-out; less job security; and the possibility of additional government downsizing and realignments.

The downsizing of the past decade has commonly been discussed in terms of the reductions made in the size of the federal workforce. But what happened—or did not happen—as these reductions were being



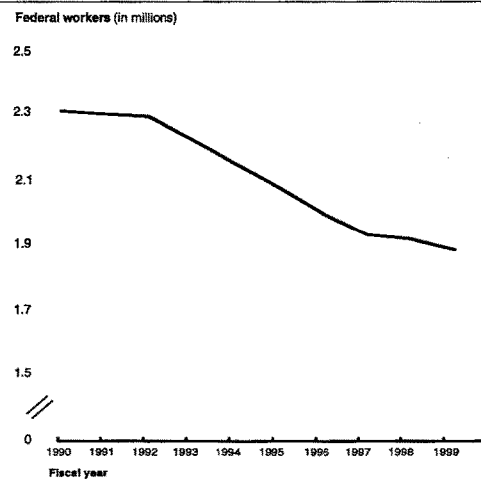
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accomplished is just as significant as the reductions themselves. As shown in figure 1, from fiscal year 1990 to fiscal year 1999, the number of non-postal civilian federal employees fell from about 2.3 million to about 1.9 million.

Figure 1: Total Federal Civilian Employment 1990–1999 (excluding the Postal Service)



Source: OPM, Federal Civilian Workforce Statistics, 1990–1999.

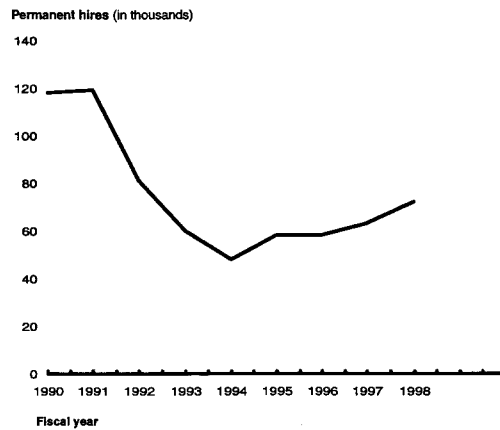
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Also, as shown in figure 2, new permanent hires fell from about 118,000 in fiscal year 1990 to a low of about 48,000 in 1994, before beginning a slow rise to about 71,500 in fiscal year 1998.

Figure 2: Federal Permanent Hires  
1990–1998 (excluding the Postal  
Service)



Note: The number of permanent hires excludes SES permanent hires and represents individuals, not FTEs.

Source: GAO calculations based on OPM data.

In cutting back on the hiring of new staff in order to reduce the number of their employees, agencies also reduced the influx of new people with the new competencies needed to sustain excellence. As you are aware, little data exists on the overall federal expenditures on training, but the anecdotal evidence is that, in trying to save on workforce-related costs, agencies cut back on the training investments needed if their smaller workforces were to make up for institutional losses in skills and experience. An additional concern relates specifically to information technology skills. One of the principal strategies that agencies have used to deliver services with fewer staff has been an increased reliance on information technology. However, the agencies' ability to make the most

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of this strategy could be jeopardized by the competitive disadvantage they report facing in hiring and retaining skilled information technology staff. Still another concern involves the contracting out of government services. As the number of federal employees decreases, federal agencies need to ensure that they have the right people on board to manage the cost and ensure the quality of the activities that have been outsourced.

The short- and long-term implications of downsizing for the federal government's human capital will require continuing attention. Our reviews have found, for example, that a lack of adequate strategic and workforce planning during the initial rounds of downsizing by some agencies may have affected their ability to achieve organizational missions.<sup>2</sup> Some agencies reported that downsizing in general led to such negative effects as a loss of institutional memory and an increase in work backlogs. Although we found that agencies' planning for downsizing improved as their downsizing efforts continued, it is by no means clear that the current workforce is adequately balanced to properly execute agencies' missions today, nor that adequate plans are in place to ensure the appropriate balance in the future.

We intend to do more work on the implications of downsizing, but our view today is that the widespread lack of attention to strategic human capital management may be creating a fundamental weakness in federal management, possibly even putting at risk the federal government's ability to efficiently, economically, and effectively deliver products and services to the taxpayers in the future. These shortcomings in the federal government's human capital management systems could well earn them GAO's high-risk designation when the next High Risk Series is issued in 2001.

At present, serious concerns are emerging about the aging of the federal workforce, the rise in retirement eligibilities, and the actions needed to ensure effective succession planning. The size and shape of the workforce, its skills needs and imbalances, and agencies' approaches to managing performance and incentives (e.g., lack of dispersion in ratings)—all need greater attention than they have been given. In this regard, change management is crucial: There is no underestimating the importance of consistent, committed, and persistent leadership in bringing the human capital issue to the forefront of federal management concerns.

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<sup>2</sup> Federal Workforce: Payroll and Human Capital Changes During Downsizing (GAO/GGD-99-57, Aug. 13, 1999).

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It is clear that federal agency leaders must create an integrated, strategic view of their human capital—and then sustain that attention to create real improvements in the way they manage their people. One of the emerging challenges for new presidential appointees will be to add to their traditional policy portfolios an understanding of the importance of performance management issues—and particularly, human capital issues—to the accomplishment of their agencies' policy and programmatic goals. Through its role in the appointment and confirmation process, the Senate may wish to ensure that future nominees to leadership roles in the executive agencies are committed to sound federal management, and in particular, to ensuring that their agencies recognize and enhance the value of their people.

With these thoughts in mind, I would like to make three points:

- Federal employees should be viewed not as costs to be cut but as assets to be appreciated. Strategic human capital management recognizes that employees are a critical asset for success, and that an organization's human capital policies and practices must be designed, implemented, and assessed by the standard of how well they support the organization's mission and goals.
- The experiences of leading private sector firms underscore these ideas. In studying nine selected private sector organizations known for innovative or effective human capital management, we found that human capital considerations were commonly included at all stages of management, from strategic planning through day-to-day business operations, and that these firms focused on building and maintaining the competencies of their leaders and other employees and on nurturing organizational cultures that involved employees and rewarded them for performance.
- Although the civil service system is viewed by many as outdated and in need of reform, there is much that can and should be done today—by individual federal agencies, the Office of Personnel Management (OPM), the Office of Management and Budget (OMB), GAO, and Congress—to improve the way the federal government manages its human capital, even in the absence of any fundamental legislative change.

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**Human Capital:  
Investing in People to  
Achieve Results**

Because employees account for so large and visible a share of the operating costs of most federal agencies, the workforce has traditionally been viewed through the budgetary lens. Employees have been seen as costs to be cut rather than as assets to be appreciated. But the environment in which the federal government now operates is changing at

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a rapid pace—technology is merely one prominent example—and with these changes, profound questions are emerging about the inherent role of government; the public's expectations for government; and the appropriate missions, strategies, and skills that federal entities must have to meet future demands. With new challenges putting ever-increasing pressures on government, recognizing the importance of people, and making the appropriate investments to enhance their value, will become ever more critical to programmatic success.

We at GAO use the term "human capital" because—in contrast with traditional terms such as personnel and human resource management—it focuses on two principles that are critical in a performance management environment. First, people are assets whose value can be enhanced through investment. As the value of people increases, so does the performance capacity of the organization, and therefore its value to clients and other stakeholders. As with any investment, the goal is to maximize value while managing risk. Second, an organization's human capital approaches must be aligned to support the mission, vision for the future, core values, goals, and strategies by which the organization has defined its direction and its expectations for itself and its people. An organization's human capital policies and practices should be designed, implemented, and assessed by the standard of how well they help the organization pursue these intents and achieve related results.

It is clear that, in many government entities, the transition to performance management—and along with it, to strategic human capital management—will require a cultural transformation. Hierarchical management approaches will need to yield to partnerial approaches. Process-oriented ways of doing business will need to yield to results-oriented ones. And siloed organizations will need to become integrated organizations if they expect to make the most of the knowledge, skills, and abilities of their people. Government entities that expect to make the best use of their human capital will need to build a solid foundation in strategic planning and organizational alignment, leadership and succession planning, recruiting and training the best possible talent, and establishing a performance culture—including appropriate performance measures and rewards and a focus on continuous learning and knowledge management—that supports employees in the accomplishment of their organizational missions.

The term "human capital" originated in the field of economics. But both words, "human" and "capital," are equally important to the concept as we apply it. Enhancing the value of employees is a win-win goal for

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employers and employees alike. The more an organization recognizes the intrinsic value of each employee, the more it recognizes that this value can be enhanced with nurturing and investment, the more it recognizes that employees vary in their talents and motivations and that a variety of incentive strategies and working arrangements can be created to enhance each employee's contributions to organizational performance, the more likely the organization will be to appreciate the diversity of employee needs and circumstances and to act in ways that make sense in both business and human terms.

### Experiences of Private Sector Organizations Demonstrate Human Capital Principles

The Subcommittee—along with a bipartisan group of requesters from both houses of Congress—recently requested that we identify the range of principles that commonly underlie the human capital approaches of private sector organizations regularly cited as leaders in the area of human capital management.<sup>3</sup> To gather this information, we interviewed representatives of nine private sector organizations that have been recognized in the current literature as being innovative or effective in strategically managing their human capital: Federal Express Corp.; IBM Corp.; Marriott International, Inc.; Merck and Co., Inc.; Motorola, Inc.; Sears, Roebuck and Company; Southwest Airlines Co.; Weyerhaeuser Co.; and Xerox Corp., Document Solutions Group.

A set of 10 underlying and interrelated principles emerged from our discussions with representatives of these nine private sector firms (see attachment). It should be mentioned, of course, that fundamental differences exist between the private and federal sectors, and that these differences may raise questions regarding the applicability or transferability of management principles derived from private sector practices.<sup>4</sup> For example, the government, unlike the private sector, does not operate for profit and must carry out responsibilities and functions prescribed by the Constitution or mandated by statute. Further, the federal government's responsibility is not to stockholders but to the public interest. It must continually meet social, political, or even moral expectations that may or may not coincide with economic efficiencies. But notwithstanding these and other challenges facing the leaders of federal agencies, our previous work has shown that many management principles drawn from the private sector are indeed applicable to the

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<sup>3</sup> Human Capital: Key Principles From Nine Private Sector Organizations (GAO/GGD-00-28, Jan. 31, 2000.)

<sup>4</sup> GAO/GGD-00-28.

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federal government, and that these principles can be applied advantageously and, in many cases, without changing existing laws.<sup>4</sup>

In summary, the 10 private sector human capital principles we identified can be distilled into three themes: (1) employees must be recognized as crucial to organizational success and their role considered through all stages of strategic planning and day-to-day business management; (2) organizations need to identify the skills and other characteristics needed—among leaders and all other employees—to help achieve success, and make the appropriate investments to hire, develop, and retain people to ensure that these competencies are sustained; and (3) organizations need to nurture an organizational culture that stresses results, accountability, teamwork, and employee involvement and empowerment so that employees will work together to achieve high performance.

The nine firms we visited emphasized that effective human capital management is fundamental to strategic business management. They told us that they have integrated their human capital management with both their strategic planning and day-to-day business management. Further, they stressed the need to measure the effectiveness—including the return on investment—of human capital policies and practices in the context of organizational missions and goals. In general, these organizations explicitly considered and incorporated human capital issues when developing their strategic missions, strategies, and core values, as well as when designing and implementing specific policies and practices. Some of these firms included language on the importance of human capital in their corporate mission statements, included human capital goals in their strategic plans, or adopted core values and management models that incorporate human capital into strategic business management. In addition, they sought to integrate “human resources”—i.e., human capital—professionals into the management team, thereby expanding the role of the “human resources” function beyond the traditional one of providing personnel-related administrative services. When appropriate, the private sector organizations we visited leveraged their internal human capital function with external expertise, supplementing the knowledge and skills on hand by drawing on consultants, professional associations, and other organizations.

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<sup>4</sup> Our examination of performance-based human capital management in the private sector dates back to at least 1995, when we sponsored a 2-day symposium of 32 leaders from leading private sector organizations and from governments at the federal, state, and local level as well as from abroad. From these discussions, we came to understand how high-performing organizations value employees as assets and align their “people policies” with mission accomplishment. See *Transforming the Civil Service: Building the Workforce of the Future—Results of A GAO-Sponsored Symposium* (GAO/GGD-96-35, Dec. 20, 1995).

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The nine private sector organizations also placed great importance on hiring, developing, and retaining people—both leaders and other employees—based on characteristics the organizations identified as essential to achieving their specific missions and goals. They commonly said that organizations need to identify the specific leadership traits needed to promote the achievement of organizational missions and goals, and must ensure that the pool of new leaders who have these traits will be sustained through investments in recruiting, hiring, development, retention, and succession policies and practices. The nine firms commonly pursued a range of training and development opportunities—including establishing “corporate universities”—specifically targeted at assessing, developing, and maintaining the personal qualities needed in their current and future leaders. Similarly, for all employees, these organizations stressed the need to identify the competencies—the knowledge, skills, abilities, and behaviors—needed for high performance, and to build and sustain the talent pool through approaches designed to competitively recruit, hire, develop, and retain employees while recognizing industry and labor market conditions.

Finally, the nine private sector organizations we visited recognized the cultural dimension of human capital management. The representatives of these firms commonly spoke of the importance of communicating a shared vision that all employees, working as one team, can strive to accomplish. They said that their firms used their employee performance management systems, including pay and other meaningful incentives, to create a line-of-sight between the contributions of individual employees and the organization's performance and results. Employees, they said, should be held accountable for the achievement of missions and goals, and employees who meet or exceed clearly defined and transparent standards of high performance should be rewarded. The nine private sector organizations also recognized the importance of supporting and rewarding teams and, specifically, of fostering a culture in which individuals interact, support, and learn from one another as a means of contributing to the high performance of their peers, units, and the organization as a whole. In addition, they commonly stressed the importance of incorporating the first-hand knowledge and insights of employees and employee groups to help create responsive human capital policies and practices, and of empowering employees by making them stakeholders in the development of solutions and new methods of promoting high achievement of organizational missions and goals.



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### Agencies and Others Need Not Wait to Focus on Human Capital

The kinds of human capital management principles we identified at these nine private sector organizations coincide with—and serve to underscore—observations we made before this Subcommittee last October, when we spoke of a number of strategies and techniques that, we had found, high-performing organizations use to effectively involve and empower employees to improve operational and program performance.<sup>6</sup> These strategies, we said, included (1) fostering a performance-oriented culture, (2) working with unions to develop a consensus on goals and strategies, (3) providing the training that staff need to work effectively, and (4) devolving authority while focusing accountability on results.

There is clearly much that can and should be done—by individual federal agencies, OPM, OMB, GAO, and Congress—to promote these kinds of efforts and improve the management of the government's human capital, even in the absence of any fundamental civil service reform.

### Agencies Need to Assess Their Human Capital Approaches

Among individual agencies, for example, effective implementation of performance management, as envisioned by GPRA, hinges on the ability to strategically manage all agency resources—financial, information technology, and people—to achieve organizational missions and goals. However, discussions of how the agencies planned to strategically manage their people were notably absent from many agencies' annual performance plans.<sup>7</sup> A useful first step for many federal agency leaders would be to adopt a human capital focus—to put the spotlight on their human capital approaches in light of their missions, visions for the future, core values, goals, and strategies, in an effort to see whether they are managing their most important assets to their fullest advantage.

The civil service system as a whole is still viewed by many as burdensome to managers, unappealing to ambitious recruits, hidebound and outdated, overregulated, and inflexible.<sup>8</sup> But agencies can do much to make the system work better—to empower employees and deliver better products and services to the American people. Certainly, there is no law prohibiting agencies from creating mission and vision statements, from developing strategic planning and performance measurement processes, or from aligning most human capital policies and practices with their organizational missions and core values. Nor are agencies prohibited from

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<sup>6</sup> *Management Reform: Elements of Successful Improvement Initiatives* (GAO/T-GGD-00-26, Oct. 15, 1998).

<sup>7</sup> *Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans* (GAO/GGD/AIMD-99-215, July 20, 1999).

<sup>8</sup> *Civil Service Reform: Changing Times Demand New Approaches* (GAO/T-GGD-96-31, Oct. 12, 1995).

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establishing performance management systems that assess and reward employee performance in light of organizational goals and values. Federal agencies are free to use teams, including "just-in-time" and "virtual" teams, as a means of focusing the right mix of employee knowledge and skills on the job at hand. They are also free to make continuous learning a guiding principle. And they have a variety of formal and informal actions at their disposal to establish trust, respect, diversity, and fairness in the workplace.

Considerations such as these are the focus of a human capital self-assessment checklist we published as a discussion draft last September.<sup>9</sup> The checklist was based on our examination of laws and regulations, our prior work with leading organizations in the private sector and among governments at the state and local levels as well as from abroad, and drew on values widely applied by the Malcolm Baldrige National Quality Award Program and the President's Quality Award Program, in addition to comments from officials from various federal agencies and from human capital experts within and outside government.

We recognize that there is no single recipe for successful human capital management. But we have identified a number of human capital elements and underlying values that are common to high-performance organizations in the public and private sectors. Federal agencies that are seeking to comply with the spirit of performance-based management can use the self-assessment checklist to scan their human capital systems, to see whether these elements have been addressed. The questions in the checklist follow a five-part framework—recognizing, of course, that all five parts are of necessity interrelated and overlapping:

- **Strategic planning:** Establish the agency's mission, vision for the future, core values, goals, and strategies.
- **Organizational alignment:** Integrate human capital strategies with the agency's core business practices.
- **Leadership:** Foster a committed leadership team and provide reasonable continuity through succession planning.
- **Talent:** Recruit, hire, develop, and retain employees with the skills needed for mission accomplishment.

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<sup>9</sup> Human Capital: A Self-Assessment Checklist for Agency Leaders (GAO/GGD-99-179, Sept. 1999).

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- **Performance culture:** Enable and motivate performance while ensuring accountability and fairness for all employees.

The self-assessment checklist is a simple diagnostic tool for agency leaders, rather than a methodologically rigorous evaluation. It is meant simply to capture senior leaders' informed views of their agencies' human capital policies and practices. Each of the questions in the checklist is followed by suggested sources of information or indicators; not every agency will have these sources on hand, and most of the conclusions that users arrive at can be expected to be somewhat subjective. We hope that using the self-assessment checklist will allow federal agencies to quickly determine whether their approach to human capital supports their vision of who they are and what they want to accomplish, and to identify those aspects of their "people policies" that are in particular need of attention. In addition, even the most rudimentary review by agencies of their human capital systems should help them pinpoint the strengths and weakness of their human capital performance measures and data systems. Effective performance management requires fact-based decisionmaking; one of the first requirements is relevant and reliable data. And finally, we at GAO are hoping that, by using the self-assessment checklist as a first step, agencies will begin a more comprehensive and ongoing evaluation of their human capital systems in the coming years.

Self-assessment can be an important first step for agencies in focusing on ways to tap into the potential of their people and promoting the principles that (1) people are assets whose value can be enhanced through investment and (2) any steps agencies take to manage their people should be designed, implemented, and assessed by the standard of how well these steps support the agency's mission and goals. In addition, self-assessment can help agencies develop a clearer understanding of the statutory or regulatory constraints that may hamper their ability to innovate, but equally important, the flexibilities that may be available to them. Over the past several years, some agencies have chafed under the constraints of title 5 and sought exceptions from civil service rules. A clearer understanding of the constraints facing, and the flexibilities available to, agencies may help them make choices they may not be aware are possible. Further, if enough agencies do human capital self-assessments and identify systemic barriers to more effective human capital management, then the emerging portrait of the barriers that may exist across government could help build a consensus for specific civil service reforms.

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OPM and OMB Have  
Potentially Valuable Roles  
to Play

It is clear that OPM and OMB—the central management agencies with the greatest influence on individual agencies' human capital efforts—have substantial roles to play in promoting and enabling broader application of human capital principles. Much remains to be done, but two recent developments provide hopeful indications that these agencies may be improving their focus on strategic human capital concerns.

OPM has reported that it is developing "a systematic methodology for workforce planning and staff analysis that will provide user agencies with a single, integrated interface to a vast array of tools to facilitate their workforce planning."<sup>19</sup> OPM has reported that these tools will allow agencies to "conduct data and statistical analyses in order to identify occupational and demographic trends; forecast workforce needs; access diversity, education, pay and benefits information; review strategies for succession planning; and link to a library of resources, best practices, literature and websites on strategic planning, recruitment and retention information, etc."<sup>21</sup>

Although we have not formally reviewed OPM's progress in developing its workforce planning model or associated web-based tools, OPM's efforts in this area would appear to be a worthwhile step toward filling a need, identified by agencies, for better guidance and tools from OPM in the workforce planning area. As we stressed more than a decade ago, OPM's leadership role should include working with the agencies to better prepare the government to meet future challenges, attack performance improvement efforts with more vigor, and ensure more effective oversight of the government's key human capital concerns.<sup>22</sup> Today, OPM can potentially contribute greatly to agencies' awareness of strategic human capital principles and their capacity to put them to effective use.

Similarly, OMB's role in setting governmentwide management priorities and defining resource allocations may be central to the adoption of human capital considerations across government. The President's fiscal year 2001 budget has added human capital management to its list of Priority Management Objectives (PMO). The objective, the budget states, is to "Align Federal human resources to support agency goals." It states, "Recognizing that people are critical to achieving results Americans care

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<sup>19</sup> Annual Performance Plan—Fiscal Year 2001 (February 2000), p. 90.

<sup>20</sup> Annual Performance Plan—Fiscal Year 2001, p. 90.

<sup>21</sup> Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges (GAO/GGD-89-19, Jan. 19, 1989).

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about, the Administration will undertake a strategic approach to human resources management." The budget states that OPM is to complete the design of its prototype workforce planning model; "work with agencies to ensure labor-management initiatives to empower executives, line managers, and especially employees to improve customer service and get mission results;" encourage agencies to make better use of the flexibilities available to them; and where necessary, submit legislative proposals "consistent with these human resource management strategies."

It is too early to tell whether the steps regarding human capital management outlined in the President's budget will lead to greater attention to human capital concerns or real improvements in the way the federal workforce is managed. But the fact that these considerations have been formally recognized as a management priority is an encouraging sign, and creates a clear opportunity to make real progress in the human capital area. The next thing needed from OMB—and from OPM—is a sustained commitment to making this progress a reality.

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GAO Plans to Contribute to  
Human Capital  
Improvement Efforts

At GAO, we hope to encourage and facilitate the adoption throughout government of a greater human capital focus, as well as of other performance management principles, and to "lead by example." Right now, we are making our own human capital a top priority. Among other things, we are pursuing far-reaching strategic planning and organizational alignment efforts, weaving our core values into all our key decisionmaking, assessing our human capital systems from top to bottom for their alignment with our organizational mission and vision, inventorying our institutional skills and using a matrix management approach to our work, focussing on succession planning, reinvigorating our recruiting and mentoring programs, redesigning our training curriculum, reengineering our employee performance appraisal and reward system, and relying on an unprecedented supply of employee suggestions and feedback data from across the agency. All these activities reflect a fundamental decision that we have made to focus not just on living for today, but on preparing for tomorrow by investing in our people. With these investments of resources in our human capital programs, we are hoping to enhance the value of our people and, in turn, the value of GAO to Congress and all Americans. We are also hoping to demonstrate that other federal agencies, if they put their minds to it and are willing to make the appropriate investments, can do much to improve the way they manage their people.

In addition, we hope to provide conceptual frameworks and practical tools to help agencies make substantial improvements in their human capital management policies and practices. The human capital self-assessment

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checklist is one of our first efforts in this area. We will use the self-assessment checklist to promote a governmentwide human capital focus, in part through constructive engagement with the agencies. Through our audit and evaluation work and outreach efforts, we hope to learn more about the day-to-day challenges that agencies face and to develop more rigorous, widely adaptable methodologies for human capital assessment. Sounder methodologies will allow agencies to make a more workable and compelling business case for their human capital investments. We also hope to identify and share with agencies best practices in human capital drawn from the private sector and from governments at all levels and abroad. By doing so, we hope to better enable agencies to develop human capital approaches tailored to their own needs and circumstances. In addition, we intend to put agencies' human capital efforts into perspective by noting the progress they have made as well as the challenges they have encountered.

Another way in which we intend to contribute is by providing sound and reliable data gathering to help inform a consensus on what governmentwide human capital reforms may be needed. One thing we can do is help bring to light common barriers that agencies have identified as standing in the way of their changeover to performance management principles. It is becoming increasingly clear that the system for federal employment must provide agencies with sufficient flexibilities to tailor their human capital approaches to their missions, goals, strategies, and other circumstances—while ensuring, meanwhile, that adequate safeguards are in place to prevent abuses. We intend to give a higher priority to studying the structure and underlying assumptions of the civil service, including the roles and responsibilities of the central personnel agencies, and the effective balance between flexibility and accountability. Drawing on the human capital self-assessments we hope that agencies will perform, and on the work we at GAO pursue at Congress' behest, we hope to identify common themes and experiences across the range of federal employers. The more commonalities and shared perceptions we can identify, the more likely it may be that we can reach a consensus on reform.

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The Congressional Role is  
Paramount

The leadership role of Congress is critical, of course, if governmentwide improvements in human capital management are to occur. Congress plays a central role in management improvement efforts throughout the executive branch through its legislative and oversight functions. Through the creation over the past decade of the performance management framework, spearheaded by the Senate Governmental Affairs Committee and the House Government Reform Committee, Congress has, in effect,

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been the institutional champion for improving the management of the federal government. On an agency-specific basis as well, support from Congress has been crucial to instituting and sustaining management reforms, such as those at the Internal Revenue Service, the General Services Administration, and elsewhere across the federal government.

Similarly, Congress can now turn its attention to the importance of human capital management in helping the reforms of the past decade truly make a difference in the economy, efficiency, and effectiveness with which agencies deliver products and services to the American people. In its oversight of agencies' management improvement efforts, Congress can target for special attention agencies' efforts, if any, to strategically manage their human capital for results. For agencies that request legislative exceptions from current civil service laws or regulations, Congress can require that agencies "make their case" based on rational and fact-based analyses of their needs, the constraints under which they presently operate, and the flexibilities available to them. Further, through the appointment and confirmation process, the Senate has an added opportunity to make clear its commitment to sound federal management and, in particular, human capital management, and to explore what prospective nominees plan to do to ensure that their agencies recognize and enhance the value of their people.

Eventually, Congress may need to consider the extent to which traditional "civil service" approaches—the structures, oversight mechanisms, rules, and constraints—support the needs of a government that is now adopting performance management principles. Ultimately, legislative reform in the human capital area may need to be considered in order to address the missing link in the performance management portfolio. In the meantime, however, agencies need to take a more strategic and integrated approach in the human capital area and maximize their efforts within the context of current law. Congress can help ensure that they do that.

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## Summary

In summary, Mr. Chairman, designing, implementing, and maintaining effective human capital strategies will be critical to achieving the goals of maximizing the performance and ensuring the accountability of the federal government. Working in a new performance management environment in which federal agencies are held accountable for delivering on their promises to the taxpayers, the importance of the "people dimension" in government becomes more vivid every day. In this regard, leading private sector organizations have some lessons to teach us, but it will be the federal government's job to fashion human capital systems that work, in government, for the American people.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Subcommittee may have at this time.

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**Contact and  
Acknowledgements**

For further information regarding this testimony, please contact Michael Brostek, Associate Director, Federal Management and Workforce Issues, at (202) 512-8676. Individuals making key contributions to this testimony included Stephen Altman, Jennifer S. Cruise, and Thomas C. Fox.



Attachment

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## Key Human Capital Principles From Nine Private Sector Organizations

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Each of the nine private sector organizations in our review implemented human capital strategies and practices that were designed to directly support the achievement of their specific missions, strategic goals, and core values.<sup>1</sup> Although human capital management alone cannot ensure high performance, proper attention to human capital is a fundamental building block for achieving an organization's mission and goals. On the basis of the information they provided, we identified 10 underlying and interrelated principles of human capital management that are common to the nine organizations:

- 1. Treat human capital management as being fundamental to strategic business management.** Integrate human capital considerations when identifying the mission, strategic goals, and core values of the organization as well as when designing and implementing operational policies and practices.
- 2. Integrate human capital functional staff into management teams.** Include human capital leaders as full members of the top management team rather than isolating them to provide after-the-fact support. Expand the strategic role of human capital staff beyond that of providing traditional personnel administration services.
- 3. Leverage the internal human capital function with external expertise.** Supplement internal human capital staff's knowledge and skills by seeking outside expertise from consultants, professional associations, and other organizations, as needed.
- 4. Hire, develop, and sustain leaders according to leadership characteristics identified as essential to achieving specific missions and goals.** Identify the leadership traits needed to achieve high performance of mission and goals, and build and sustain the organization's pool of leaders through recruiting, hiring, development, retention, and succession policies and practices targeted at producing leaders with the identified characteristics.
- 5. Communicate a shared vision that all employees, working as one team, can strive to accomplish.** Promote a common understanding of the mission, strategic goals, and core values that all employees are directed to work as a team to achieve. Create a line-of-sight between individual contributions and the organization's performance and results.

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<sup>1</sup> Human Capital: Key Principles From Nine Private Sector Organizations (GAO/GGD-00-28, Jan. 31, 2000).

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Attachment  
Key Human Capital Principles From Nine Private Sector Organizations

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- 6. Hire, develop, and retain employees according to competencies.** Identify the competencies—knowledge, skills, abilities, and behaviors—needed to achieve high performance of mission and goals, and build and sustain the organization's talent pool through recruiting, hiring, development, and retention policies and practices targeted at building and sustaining those competencies.
- 7. Use performance management systems, including pay and other meaningful incentives, to link performance to results.** Provide incentives and hold employees accountable for contributing to the achievement of mission and goals. Reward those employees who meet or exceed clearly defined and transparent standards of high performance.
- 8. Support and reward teams to achieve high performance.** Foster a culture in which individuals interact and support and learn from each other as a means of contributing to the high performance of their peers, units, and the organization as a whole. Bring together the right people with the right competencies to achieve high performance as a result, rather than in spite, of the organizational structure.
- 9. Integrate employee input into the design and implementation of human capital policies and practices.** Incorporate the first-hand knowledge and insights of employees and employee groups to develop responsive human capital policies and practices. Empower employees by making them stakeholders in the development of solutions and new methods of promoting and achieving high performance of organizational missions and goals.
- 10. Measure the effectiveness of human capital policies and practices.** Evaluate and make fact-based decisions on whether human capital policies and practices support high performance of mission and goals. Identify the performance return on human capital investments.

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STATEMENT OF  
JANICE R. LACHANCE, DIRECTOR  
OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT  
MANAGEMENT, RESTRUCTURING AND  
THE DISTRICT OF COLUMBIA  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

on

MANAGING HUMAN CAPITAL  
IN THE TWENTY-FIRST CENTURY

March 9, 2000

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR INVITING ME TO TESTIFY TODAY ON THE SUBJECT OF THE  
MANAGEMENT OF HUMAN CAPITAL IN THE TWENTY-FIRST CENTURY. YOUR  
EXPERIENCE, MR. CHAIRMAN, AS A BIG-CITY MAYOR AND AS GOVERNOR GIVES  
YOU A UNIQUE PERSPECTIVE ON THE CHALLENGES FACING US IN THE  
EXECUTIVE BRANCH. WE ARE PLEASED TO HAVE THIS OPPORTUNITY TO  
DISCUSS THE ADMINISTRATION'S PLANS TO ALIGN FEDERAL HUMAN  
RESOURCES TO SUPPORT AGENCY GOALS.

AS DIRECTOR OF THE OFFICE OF PERSONNEL MANAGEMENT FOR THE FEDERAL  
GOVERNMENT, I AM PLEASED THAT SO MANY PEOPLE ARE NOW DISCUSSING

WHAT WE AT OPM HAVE HELD AS A CORE BELIEF, THAT THE GOVERNMENT'S HUMAN RESOURCES – OUR PEOPLE – ARE OUR MOST VALUABLE ASSET. I AM CONVINCED THAT, LIKE THE PRIVATE SECTOR, WE MUST ENGAGE IN THE “WAR FOR TALENT.” WE MUST SECURE, DEVELOP, EMPOWER, AND RETAIN THE TALENTED PEOPLE WE NEED TO ACCOMPLISH OUR MISSION FOR THE AMERICAN PEOPLE. THIS IS THE FOUNDATION FOR OUR STRATEGIC APPROACH TO HUMAN RESOURCES MANAGEMENT.

THAT STRATEGIC APPROACH IS BEING DRIVEN BY THE CHANGES THAT HAVE TAKEN PLACE IN GOVERNMENT. HOW WE LEAD THIS CHANGE WILL MEAN THE DIFFERENCE BETWEEN SUCCESS AND FAILURE FOR THE FEDERAL GOVERNMENT.

THESE CHANGES HAVE BEEN PARTICULARLY DRAMATIC IN TWO AREAS. THE FIRST IS THE WAY WORK ITSELF HAS CHANGED, PARTICULARLY THROUGH THE IMPACT OF THE INFORMATION REVOLUTION. THE FEDERAL WORKFORCE IS NO LONGER THE ARMY OF CLERKS WE DEPLOYED FIFTY YEARS AGO. NOW POLICY AND PROGRAM OFFICIALS NEED COMMANDO SQUADS OF INFORMATION TECHNOLOGY PROFESSIONALS WITH CUTTING-EDGE SKILLS. AT OPM, WE HAVE BEEN WORKING HARD TO ANTICIPATE THE SPECIFIC NATURE OF WORK AND THE WORKFORCE NEEDED FOR THE 21<sup>ST</sup> CENTURY. HUMAN RESOURCES SYSTEMS THAT WERE DESIGNED FOR THE STABLE BUREAUCRACIES OF THE 1950'S AND 60'S

SIMPLY HAD TO CHANGE SO THAT AGENCIES AND THEIR EMPLOYEES COULD COPE EFFECTIVELY WITH THE REALITY THAT WE MUST ALL "ADAPT OR BE PUSHED ASIDE."

THE SECOND AREA OF DRAMATIC CHANGE FOR THE GOVERNMENT IS WHAT SOME CALL THE "SHIFT TO RESULTS." IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT AND THE CLINTON/GORE ADMINISTRATION'S SUCCESSFUL FOCUS ON CUSTOMER SERVICE HAVE ENTERED THE BLOODSTREAM OF AGENCIES THROUGHOUT GOVERNMENT. MANAGERS AND EMPLOYEES ARE LOOKING AT THEIR WORK DIFFERENTLY. THE FOCUS HAS SHIFTED FROM PROCESS TO RESULTS AND FROM FOLLOWING THE RULES TO SERVING CUSTOMERS.

THIS RESULTS SHIFT HAS REAL IMPLICATIONS FOR HUMAN RESOURCES MANAGEMENT SYSTEMS AND PRACTICES, WHICH MUST BE ADAPTED TO ALIGN WITH AGENCIES' STRATEGIC AND PERFORMANCE PLANS. THIS INCLUDES THE SYSTEMS AND PRACTICES FOR HOW SKILLS ARE VALUED, HOW LEARNING NEEDS ARE DETERMINED AND MET, AND HOW PERFORMANCE IS MEASURED AND RECOGNIZED.

AS AGENCIES ACCEPT THE FUNDAMENTAL PREMISE THAT OUR PEOPLE ARE OUR MOST VALUABLE ASSETS, THEY MUST BE PREPARED TO FULLY INTEGRATE

HUMAN RESOURCES MANAGEMENT INTO THE FABRIC OF THEIR MISSION-CRITICAL ACTIVITIES. THAT IS THE ALIGNMENT WE SEEK.

**STRATEGIC HRM ALIGNMENT**

AT OPM, WE HAVE BEEN EMPHASIZING THIS INTEGRATION AS WE LEAD THE HUMAN RESOURCES COMMUNITY IN A SHIFT TOWARD STRATEGIC HUMAN RESOURCES MANAGEMENT ALIGNMENT, WHICH I BELIEVE EMBRACES THE CURRENT EMPHASIS ON HUMAN CAPITAL.

THE VISION FOR MANAGING HUMAN CAPITAL THAT WE PURSUE COULD BE DESCRIBED MOST SIMPLY AS *"GETTING THE RIGHT PEOPLE WITH THE RIGHT SKILLS IN THE RIGHT JOBS AT THE RIGHT TIME."*

AND IN THE FEDERAL GOVERNMENT, WE MUST ALWAYS TAKE CARE TO ADD *"AND IN THE RIGHT WAY"* TO ENSURE THAT THE FEDERAL CIVIL SERVICE IS MANAGED IN ACCORDANCE WITH THE MERIT SYSTEM PRINCIPLES. THAT MERIT SYSTEM, AS WELL AS VETERANS PREFERENCE PRINCIPLES AND THE OTHER EMPLOYMENT LAWS THAT OPERATE THROUGHOUT OUR ECONOMY, SUPPORT IMPORTANT NATIONAL POLICIES THAT TRANSCEND ANY GIVEN AGENCY'S MISSION OR GOALS.

HAVING SAID THAT, I MUST QUICKLY ACKNOWLEDGE THAT THOSE AGENCY MISSIONS AND GOALS HAVE BECOME THE DRIVERS OF OUR HUMAN RESOURCES PROGRAMS AND PRACTICES. THAT IS THE REAL REVOLUTION WE HAVE WITNESSED IN FEDERAL HUMAN RESOURCES MANAGEMENT. FOR DECADES, PERSONNEL ADMINISTRATION WAS LIKE MUCH OF THE REST OF GOVERNMENT -- Mired in and absorbed with rules and procedures.

IN THAT ERA, GETTING THE RIGHT PEOPLE AT THE RIGHT TIME MEANT DOING OUR WORK "ACCORDING TO HOYLE," WHERE PROCESSES WERE ENDS IN THEMSELVES. NOWADAYS IT MEANS DOING OUR WORK "IN WAYS THAT CONTRIBUTE TO ACHIEVING RESULTS," AND THAT DIFFERENCE HAS TRULY TRANSFORMED HUMAN RESOURCES MANAGEMENT.

THAT TRANSFORMATION IS AIMED AT HELPING AGENCIES ACHIEVE TWO RELATED HUMAN RESOURCES OBJECTIVES.

THE FIRST GENERAL OBJECTIVE IS INVESTING IN TALENT. WE MUST HAVE EFFECTIVE WORKFORCE PLANNING MODELS AND TECHNIQUES TO FIGURE OUT WHAT KINDS OF EMPLOYEES WILL BE VALUABLE FOR ACHIEVING SPECIFIC RESULTS. HAVING SET OUT SUCH PLANS, WE MUST FIND AND RECRUIT SUCH EMPLOYEES, AND WE MUST USE THE LATEST ASSESSMENT APPROACHES TO SELECT THE APPLICANTS WITH THE BEST TALENTS TO MEET AGENCY NEEDS.



WE MUST ALSO CONTINUE TO ADD VALUE TO THE WORKFORCE THAT IS ALREADY ON BOARD AND FIND WAYS TO PROMOTE THE POTENTIAL OF OUR EMPLOYEES BY MAKING THEM MORE KNOWLEDGEABLE, MORE ADAPTABLE, AND BETTER ABLE TO MEET CHANGING NEEDS. PART OF EVERY EMPLOYEE'S JOB WILL BE TO KEEP LEARNING ABOUT THE EVER-CHANGING WORK TO BE PERFORMED. THE CLINTON/GORE ADMINISTRATION REALIZES THIS AND HAS MADE A LIFELONG LEARNING A PRIORITY FOR THE FEDERAL WORKFORCE. CONTINUAL LEARNING AND DEVELOPMENT ARE THE KEYS HERE, WITH A FOCUS ON ADDING THE SKILLS AND COMPETENCIES THAT WILL IMPROVE RESULTS.

WE HAVE A SECOND GENERAL OBJECTIVE FOR OUR STRATEGIC HUMAN RESOURCES MANAGEMENT ALIGNMENT, NAMELY ENGAGING OUR EMPLOYEES IN ACHIEVING MISSION RESULTS. THE "RIGHT PEOPLE" IN THIS INSTANCE ARE COMMITTED PEOPLE WITH A SHARED VISION. WE MUST ALIGN AND DIRECT OUR EMPLOYEES' TALENTS – THEIR ENERGY AND THEIR SKILLS – TOWARD CLEARLY UNDERSTOOD ORGANIZATIONAL GOALS. WE DO THIS THROUGH EFFECTIVE PERFORMANCE MANAGEMENT AND REWARDS SYSTEMS THAT ARE FLEXIBLE ENOUGH TO ADAPT TO THE GOVERNMENT'S VARIED MISSIONS, WORK TECHNOLOGIES, AND LABOR MARKETS.

BUILDING AND SUSTAINING EMPLOYEE COMMITMENT ALSO REQUIRES LEADERSHIP AND EMPOWERMENT AND RESPECT FOR DIVERSE EMPLOYEE

NEEDS. THE MANAGER'S ROLE IS CHANGING TO BEING MORE OF A LEADER, A COACH, AND A TEACHER, RATHER THAN A TASKMASTER ASSIGNING WORK AND MAKING JUDGMENTS. THIS NEW LEADERSHIP MEANS PROMOTING PARTNERSHIP AND EMPOWERING FRONT-LINE WORKERS TO GIVE THEM A GREATER SAY IN PROBLEM SOLVING AND WORKPLACE IMPROVEMENTS, AND IT MEANS ACCOMMODATING AND VALUING THE DIVERSITY OF THE WORKFORCE, FOR EXAMPLE, BY HELPING EMPLOYEES MEET THEIR DEPENDENT CARE NEEDS OR OFFERING FLEXIBLE WORK HOURS TO SUPPORT VOLUNTEERING IN THE COMMUNITY.

WE KNOW A LOT ABOUT THE ORGANIZATIONS THAT ARE BEST ABLE TO RETAIN THE MOST TALENTED EMPLOYEES, AND THE EVIDENCE IS UNEQUIVOCAL. THEY COMMUNICATE AND REINFORCE CLEAR, ENGAGING CUSTOMER SERVICE GOALS BY USING EFFECTIVE, PERFORMANCE PLANNING AND RECOGNITION PROGRAMS TAILORED TO THEIR SPECIFIC MISSIONS AND WORKFORCES. THEY OFFER EXCELLENT LEADERSHIP BY SKILLED MANAGERS AND EMPOWER EMPLOYEES BY PROMOTING PARTNERSHIP AND INNOVATION. AND THEY HELP EMPLOYEES BALANCE THEIR WORK AND FAMILY OBLIGATIONS BY PROVIDING FLEXIBLE WORK ARRANGEMENTS.

THESE TWO OBJECTIVES FOR STRATEGIC HUMAN RESOURCES MANAGEMENT – INVESTING IN TALENT AND ENGAGING EMPLOYEE COMMITMENT – HAVE

SHAPED THE ACTIONS WE ARE UNDERTAKING TO ALIGN FEDERAL HUMAN RESOURCES MANAGEMENT SYSTEMS TO SUPPORT AGENCY GOALS. THESE SYSTEMS ARE STILL BASED TO SOME EXTENT IN PROCESSES AND PROCEDURES, BUT NOW WE WORK HARD TO ENSURE THAT THOSE SYSTEMS ARE FLEXIBLE, EFFICIENT AND EFFECTIVE FOR MEETING AGENCIES' HUMAN RESOURCES NEEDS, AND WE CREATE NEW STRATEGIES AND SYSTEMS WHEN THEY ARE NEEDED. EVEN MORE IMPORTANT, AGENCIES ARE DEFINING THEIR NEEDS THROUGH RESULTS-DRIVEN ANALYSES AND ASSESSMENTS SO THAT THEIR HUMAN RESOURCES CAN INDEED BE ALIGNED WITH AGENCY GOALS.

**PRIORITY MANAGEMENT OBJECTIVE #9**

I WAS PLEASED WHEN THE PRESIDENT INCLUDED STRATEGIC HUMAN RESOURCES MANAGEMENT AS A PRIORITY MANAGEMENT OBJECTIVE IN THE FISCAL YEAR 2001 BUDGET. THIS IS AN IMPORTANT SIGNAL TO THE PUBLIC AND TO GOVERNMENT LEADERS THAT PEOPLE ARE OUR MOST IMPORTANT ASSET. WE WORKED CLOSELY WITH THE OFFICE OF MANAGEMENT AND BUDGET TO DEVELOP THIS OBJECTIVE, AND LOOK FORWARD TO THEIR CONTINUING SUPPORT AS WE PROCEED WITH IMPLEMENTATION.

THIS OBJECTIVE INCLUDES THREE CRITICAL ACTIONS DIRECTED TOWARD MEETING THE GENERAL HUMAN RESOURCES MANAGEMENT OBJECTIVES THAT I JUST DESCRIBED. THESE ARE:

- (1) WE WILL HELP AGENCIES STRATEGICALLY ASSESS THEIR HUMAN RESOURCES TO ENSURE A QUALITY WORKFORCE FOR THE 21<sup>ST</sup> CENTURY;
- (2) WE WILL SUPPORT NOT ONLY EXECUTIVES AND LINE MANAGERS, BUT, INDEED, ALL EMPLOYEES, AS THEY STRIVE TO IMPROVE CUSTOMER SERVICE AND GET MISSION RESULTS; AND
- (3) WE WILL ENSURE THAT AGENCIES HAVE THE TOOLS TO ATTRACT, MANAGE, AND RETAIN THE TALENTED EMPLOYEES THEY NEED, AND WE WILL ENCOURAGE AGENCIES TO MAKE BETTER USE OF EXISTING FLEXIBILITIES TO FIT SPECIALIZED SITUATIONS.

TO PROVIDE A MORE CONCRETE SENSE OF OUR DIRECTION, I WILL ADDRESS EACH OF THESE ITEMS IN MORE DETAIL.

#### **WORKFORCE PLANNING**

WE KNOW THAT AGENCIES NEED TOOLS TO ASSESS THEIR LONG-TERM HUMAN RESOURCES NEEDS, AND OPM WILL PROVIDE AGENCIES THE RIGHT TOOLS FOR THE JOB.

THIS YEAR WE WILL DESIGN A WORKFORCE PLANNING MODEL THAT WILL ENABLE MANAGERS TO ANALYZE THE CURRENT WORKFORCE AND, USING A VARIETY OF "WHAT IF" SCENARIOS, DETERMINE WHAT KIND OF WORKFORCE WILL BE NEEDED IN THE FUTURE. THE MODEL WILL USE BOTH GOVERNMENT-

WIDE AND AGENCY-SPECIFIC WORKFORCE DATA TO HELP AGENCIES IDENTIFY OCCUPATIONAL NEEDS, SKILLS GAPS, RECRUITING SOURCES, INCONSISTENCIES IN DIVERSITY, AND SUCCESSION ISSUES. AGENCIES WILL ALSO BE ABLE TO RELY ON THE DATA TO ANTICIPATE NEW TRENDS IN ATTRITION AND RETIREMENT AND PREDICT BOTH SHORTAGES AND GROWTH IN KEY OCCUPATIONS. WORKFORCE MODELING WILL HELP AGENCIES CLOSE THE GAP BETWEEN THE WORKFORCE THEY HAVE TODAY AND THE ONE THEY WILL NEED IN THE FUTURE.

THIS IS ONLY ONE WAY THAT OPM IS HELPING TO ALIGN HUMAN RESOURCE SYSTEMS WITH AGENCY GOALS. WE ALSO HAVE TAKEN NUMEROUS STEPS TO EMPOWER EXECUTIVES, LINE MANAGERS AND FRONT-LINE WORKERS SO THEY CAN IMPROVE CUSTOMER SERVICE AND GET RESULTS.

#### **LABOR-MANAGEMENT PARTNERSHIPS**

IN A UNIONIZED ENVIRONMENT LIKE THE FEDERAL GOVERNMENT, LABOR-MANAGEMENT PARTNERSHIPS ARE AN ESSENTIAL VEHICLE FOR GENUINE WORKER EMPOWERMENT.

WHEN THIS ADMINISTRATION FIRST CAME TO WASHINGTON, UNIONS AND MANAGEMENT WERE OFTEN AT EACH OTHER'S THROATS, LITIGATION WAS RAMPANT, AND COMMON SENSE WAS IN SHORT SUPPLY. STUDY AFTER STUDY

CONCLUDED THAT LABOR RELATIONS IN THE GOVERNMENT WERE UNPRODUCTIVE, INEFFECTIVE, AND A STEADY SOURCE OF FRUSTRATION FOR BOTH UNIONS AND MANAGEMENT.

WE KNEW WE HAD TO DO BETTER. WE LISTENED CAREFULLY TO BUSINESS LEADERS AND CEO'S WHO SAID THAT REAL CHANGE IN ORGANIZATIONS HAS TO COME FROM THE BOTTOM UP, NOT JUST THE TOP DOWN. AND WE LEARNED FROM PEOPLE LIKE YOU, MR. CHAIRMAN, INNOVATIVE STATE AND LOCAL GOVERNMENT LEADERS WHO UNDERSTOOD THAT GENUINE PARTNERSHIPS BETWEEN LABOR-MANAGEMENT DO NOT JUST MAKE GOOD LABOR RELATIONS POLICY, BUT ARE GOOD FOR GOVERNMENT, GOOD FOR TAXPAYERS, AND GOOD FOR THE BOTTOM-LINE.

AND THAT IS WHY, IN 1993, PRESIDENT CLINTON SIGNED EXECUTIVE ORDER 12871, AND CALLED FOR THE CREATION OF LABOR-MANAGEMENT PARTNERSHIP COUNCILS THROUGHOUT THE EXECUTIVE BRANCH. WE BELIEVED THEN – AND CONTINUE TO BELIEVE TODAY – THAT REAL GAINS CAN BE MADE WHEN LABOR AND MANAGEMENT WORK WITH EACH OTHER AS PARTNERS.

AND THAT'S JUST WHAT WE'VE SEEN OVER THE PAST SIX YEARS. PARTNERSHIPS BETWEEN LABOR AND MANAGEMENT HAVE CUT COSTS, ENHANCED PRODUCTIVITY, AND IMPROVED THE DELIVERY OF SERVICE TO THE

AMERICAN PEOPLE AT AGENCIES LIKE THE SOCIAL SECURITY ADMINISTRATION, THE DEPARTMENT OF VETERANS AFFAIRS, THE IRS, AND THE CUSTOMS SERVICE.

BUT FOR ALL THE SUCCESS WE'VE HAD, WE KNOW THAT PARTNERSHIPS ARE NOT THRIVING EVERYWHERE. WE CAN DO MORE TO BUILD ON THE SUCCESS WE'VE HAD AND SPREAD PARTNERSHIPS MORE WIDELY ACROSS THE GOVERNMENT.

TO HELP IN THIS EFFORT, THE PRESIDENT SIGNED A MEMORANDUM LAST OCTOBER REAFFIRMING BOTH EXECUTIVE ORDER 12871 AND THIS ADMINISTRATION'S COMMITMENT TO LABOR-MANAGEMENT PARTNERSHIP. THE PRESIDENT CALLED ON FEDERAL AGENCIES TO WORK WITH THEIR UNIONS ON A PLAN TO HELP THEM BUILD AND SUSTAIN REAL LABOR-MANAGEMENT PARTNERSHIPS. HE ALSO ASKED AGENCIES TO EVALUATE THE PROGRESS THEY ARE MAKING TOWARDS THE DEVELOPMENT OF SUCCESSFUL PARTNERSHIPS AND TO REPORT THEIR RESULTS TO OMB BY APRIL 14TH OF THIS YEAR.

AS OPM DIRECTOR, I AM PRIVILEGED TO CHAIR THE PRESIDENT'S NATIONAL PARTNERSHIP COUNCIL. IN JUST A FEW MONTHS THE COUNCIL EXPECTS RESULTS FROM THE MOST COMPREHENSIVE STUDY TO DATE OF FEDERAL SECTOR LABOR MANAGEMENT PARTNERSHIPS. WE ARE LOOKING AT EIGHT FEDERAL AGENCIES AND STUDYING THE CONNECTIONS BETWEEN

PARTNERSHIPS AND BOTTOM-LINE IMPROVEMENTS IN AGENCY PERFORMANCE AND THE STRATEGIES AND TACTICS THAT CAN MAKE REAL IMPROVEMENTS A REALITY.

THIS PROJECT IS VERY IMPORTANT. IT WILL PROVIDE IN-DEPTH AND CONCRETE INFORMATION ON WHAT MAKES LABOR-MANAGEMENT PARTNERSHIPS TICK IN A VARIETY OF WORKPLACE SETTINGS. WE EXPECT TO LEARN IMPORTANT NEW LESSONS ABOUT HOW FEDERAL AGENCIES CAN CREATE GOOD WORKING PARTNERSHIPS, AND WE SHOULD FIND A NUMBER OF "BEST PRACTICES" THAT CAN INSPIRE AND MOTIVATE OTHERS.

WE WILL SHARE THIS INFORMATION WITH THE FEDERAL COMMUNITY AND PASS ON THE LESSONS LEARNED AS WE ADVISE AGENCIES ON HOW THEY CAN IMPROVE THEIR LABOR-MANAGEMENT RELATIONS. WE ALSO PLAN TO DEVELOP SELF-EVALUATION TOOLS AND AN ASSESSMENT MODEL THAT AGENCIES CAN USE TO MEASURE THEIR OWN PROGRESS IN PARTNERSHIP AND MEASURE THE IMPACT THAT PARTNERSHIP IS HAVING ON AGENCY MISSION.

#### LEARNING ENVIRONMENT

OPM RECOGNIZES THAT WITHOUT CONTINUOUS LEARNING AND A REAL INVESTMENT IN TRAINING AND DEVELOPMENT, WORKER "EMPOWERMENT" IS AN EMPTY PHRASE. EACH DAY BRINGS FRESH EXAMPLES OF HOW A BETTER



TRAINED WORKFORCE CORRELATES WITH REDUCED COSTS, IMPROVED SERVICE, AND INCREASED CUSTOMER AND EMPLOYEE SATISFACTION. UP-TO-DATE KNOWLEDGE, SKILLS, AND ABILITIES ARE CRITICAL FOR BOTH ORGANIZATIONAL PERFORMANCE AND INDIVIDUAL EMPLOYEE SUCCESS.

THAT IS WHY WE ARE PROVIDING LEADERSHIP AND ASSISTANCE TO AGENCIES TO HELP DEVELOP THE FEDERAL WORKFORCE AND CONTINUALLY BUILD WORKFORCE COMPETENCIES.

WE ARE CURRENTLY DEVELOPING A RESOURCE GUIDE CALLED *STRATEGICALLY PLANNING TRAINING* THAT WILL HELP AGENCIES CREATE A SET OF GOALS AND PERFORMANCE MEASURES TO LINK TRAINING TO THE ACCOMPLISHMENT OF AGENCY GOALS.

AND AS THE CHAIR OF THE PRESIDENT'S NEW TRAINING TECHNOLOGY TASK FORCE, I AM PLEASED TO REPORT THAT OPM IS WORKING HARD ON INITIATIVES TO IMPLEMENT THE PRESIDENT'S JANUARY 1999 EXECUTIVE ORDER ENTITLED "*USING TECHNOLOGY TO IMPROVE TRAINING OPPORTUNITIES FOR FEDERAL GOVERNMENT EMPLOYEES.*"

WE HAVE ALREADY BEGUN A PILOT PROJECT TO HELP PROMOTE CONTINUOUS LEARNING USING SOMETHING CALLED "INDIVIDUAL LEARNING ACCOUNTS."

UNDER THIS INNOVATIVE APPROACH TO LIFE-LONG LEARNING, AGENCIES WILL SET ASIDE MONEY OR HOURS (OR BOTH) INTO AN ACCOUNT THAT AN EMPLOYEE CAN USE FOR LEARNING AND DEVELOPMENT RELATED HIS OR HER OFFICIAL DUTIES. 12 AGENCIES ARE CONDUCTING 16 LEARNING ACCOUNT PILOTS COVERING SEVERAL THOUSAND EMPLOYEES. SOME PILOTS TARGET SPECIFIC WORK GROUPS (SUCH AS WELFARE-TO-WORK) WHILE OTHERS COVER A PROGRAM'S ENTIRE WORKFORCE. THESE INNOVATIVE PILOT PROGRAMS BEGIN LATER THIS MONTH.

#### **WORK AND FAMILY PROGRAMS**

EMPLOYEE EMPOWERMENT WILL ONLY SUCCEED WHEN EMPLOYEES CAN STRIKE AN APPROPRIATE BALANCE BETWEEN THEIR WORK AND FAMILY NEEDS.

TO HELP EMPLOYEES REACH THAT DIFFICULT BALANCE, WE WILL CONTINUE TO SUPPORT AGENCIES IN THEIR IMPLEMENTATION OF A VARIETY OF FAMILY-FRIENDLY POLICIES AND PROGRAMS, INCLUDING TELECOMMUTING, ALTERNATIVE WORK SCHEDULES, JOB SHARING, ELDER AND CHILD CARE RESOURCES, AND FAMILY-FRIENDLY LEAVE.

PROGRAMS LIKE THESE INVARIABLY FOSTER GREATER PRODUCTIVITY AND HIGHER MORALE. OPM ALSO OFFERS A COMPREHENSIVE WEBSITE ON FEDERAL

WORK/LIFE INITIATIVES AND A SECURE SITE FOR FEDERAL AGENCY WORK/LIFE COORDINATORS.

AGENCIES THAT HAVE STRATEGICALLY ASSESSED THEIR WORKFORCE AND EMPOWERED EMPLOYEES TO DELIVER RESULTS STILL MUST HAVE THE RIGHT TOOLS TO ATTRACT, MANAGE, AND RETAIN THE WORKFORCE THEY NEED.

OPM HAS INTRODUCED A NUMBER OF CHANGES AND FLEXIBILITIES IN THE PAST SIX YEARS. FOR EXAMPLE, WE DELEGATED TO AGENCIES THE AUTHORITY TO ASSESS APPLICANTS, IN ORDER TO BRING HIRING DECISIONS AND RECRUITMENT ACTIONS CLOSER TO THE MANAGERS WHO MUST DELIVER RESULTS. WE ALSO DECENTRALIZED PERFORMANCE MANAGEMENT, AGAIN TO ALLOW AGENCIES TO DESIGN PROGRAMS THAT WORK BEST FOR THEM. BUT MORE CHANGE IS NEEDED.

#### **HIRING FLEXIBILITIES**

TODAY, MOST CANDIDATES FOR FEDERAL JOBS ARE ASSESSED AGAINST A RIGID SET OF QUALIFICATION STANDARDS WITH NARROWLY DEFINED SKILLS. THIS SYSTEM SIMPLY DOES NOT MEASURE THE WIDER AND MORE FLEXIBLE RANGE OF SKILLS THAT ARE IMPORTANT TO ORGANIZATIONS TODAY. TO ADDRESS THIS LONG-STANDING PROBLEM, WE ARE DESIGNING A NEW SYSTEM THAT WILL ALLOW AGENCIES TO ASSESS CANDIDATES AGAINST A BROAD RANGE OF JOB

COMPETENCIES. THE SHIFT FROM NARROW JOB STANDARDS TO BROAD COMPETENCIES WILL HELP AGENCIES SELECT EMPLOYEES WHO CAN GROW AND ADAPT AS WORK REQUIREMENTS SHIFT AND JOBS ARE REDESIGNED. WE USED THIS APPROACH TO ASSESSMENT LAST YEAR IN A PILOT PROJECT FOR ACCOUNTANT POSITIONS. OVER THE NEXT TWO YEARS WE WILL EXPAND THE APPROACH TO JOBS IN INFORMATION TECHNOLOGY, ADMINISTRATIVE SUPPORT, AND HUMAN RESOURCES.

ONE OF THE MOST COMMON COMPLAINTS WE HEAR FROM MANAGERS AND JOB APPLICANTS ALIKE IS THAT IT TAKES THE GOVERNMENT FAR TOO LONG TO HIRE EMPLOYEES. THE PROSPECT OF WEEKS OR EVEN MONTHS PASSING BEFORE A HIRING DECISION CAN BE MADE IS ESPECIALLY TROUBLING IN TODAY'S ENVIRONMENT, WHERE THE COMPETITION FOR HIGH-QUALITY CANDIDATES IS INTENSE AND SKILLED WORKERS ARE IN A HOT SELLERS MARKET.

IN THE NEAR FUTURE, WE WILL SUBMIT LEGISLATION THAT WOULD AMEND TITLE 5 AND BRING THE GOVERNMENT'S HIRING PRACTICES IN LINE WITH THE REALITIES OF TODAY'S JOB MARKET. THESE CHANGES WILL PROVIDE FEDERAL AGENCIES WITH NEW HIRING TOOLS TO ADAPT TO CHANGING ORGANIZATIONAL NEEDS AND MAKE IT EASIER TO HIRE AND DEVELOP A HIGH QUALITY AND DIVERSE WORKFORCE.

IN ADDITION TO THE SYSTEMIC CHANGES THAT WE WILL PROPOSE, OPM WILL CONTINUE TO STAY ON THE CUTTING EDGE OF TECHNOLOGY THAT CAN HELP SPEED SELECTION AND HIRING DECISIONS. OPM PIONEERED THE USE OF TOUCH SCREEN TECHNOLOGY AND EMPLOYMENT INFORMATION KIOSKS. EARLY ON WE RECOGNIZED THE PROMISE OF THE INTERNET AND DEVELOPED A ONE-STOP WEB-BASED EMPLOYMENT INFORMATION SYSTEM CALLED "USAJOBS" WHICH SERVES MORE THAN FOURTEEN MILLION JOB SEEKERS AND OVER 2000 AGENCY USERS EACH YEAR. WE'VE ALSO MADE IT MUCH EASIER FOR APPLICANTS TO USE THE PHONE AND THE INTERNET TO SUBMIT RESUMES AND APPLICATIONS FOR A WIDE RANGE OF FEDERAL JOBS.

HAVE THESE TECHNOLOGICAL ADVANCES HELPED? ABSOLUTELY. THE CENSUS BUREAU HAS BEEN ABLE TO REDUCE THE TIME REQUIRED TO HIRE COMPUTER SPECIALISTS AND STATISTICIANS FROM SIX MONTHS TO AS LITTLE AS THREE DAYS USING A WEB-BASED DESKTOP APPLICANT REFERRAL PROCESS THAT OPM HELPED DESIGN AND OPERATE. WE WILL MAKE A SIMILAR VERSION OF THIS SYSTEM AVAILABLE FOR GOVERNMENT-WIDE USE LATER THIS YEAR.

#### COMPENSATION SYSTEMS REVIEW

OF COURSE, EFFECTIVE HUMAN RESOURCES ALIGNMENT ENTAILS MUCH MORE THAN EFFECTIVE HIRING. ANOTHER KEY ISSUE IS THE WAY COMPENSATION SYSTEMS HELP ATTRACT AND RETAIN THE BEST TALENT. AS WE CONTINUE OUR

EFFORTS TO HELP THE GOVERNMENT COMPETE FOR TALENT IN A TIGHT LABOR MARKET, IT IS IMPORTANT TO REMEMBER THAT OUR COMPENSATION SYSTEMS REST ON A 50-YEAR OLD FOUNDATION. EVEN THOUGH WE HAVE MADE A NUMBER OF IMPROVEMENTS OVER THE YEARS, OUR SYSTEMS STILL REFLECT FUNDAMENTAL ASSUMPTIONS ABOUT ORGANIZATIONS AND PEOPLE THAT BEAR LITTLE RELATION TO THE WORLD WE KNOW.

WE ARE CURRENTLY LOOKING AT THE ENTIRE STRUCTURE OF OUR COMPENSATION SYSTEMS TO SEE HOW THEY MUST CHANGE IN ORDER TO SUPPORT THE GOVERNMENT'S MISSION TODAY AND IN THE FUTURE.

IN THE MEANTIME, WE WILL GIVE AGENCIES MORE FLEXIBILITY TO MEET THE CHALLENGES OF ATTRACTING, MANAGING, AND RETAINING THE WORKFORCE THEY NEED. IN KEEPING WITH THIS COMMITMENT, WE ARE PREPARING A LEGISLATIVE PROPOSAL THAT WOULD ENHANCE RECRUITMENT, RELOCATION, AND RETENTION INCENTIVES.

#### **PERFORMANCE MANAGEMENT**

SINCE "DEREGULATING" EMPLOYEE PERFORMANCE MANAGEMENT IN 1995, WE HAVE CONTINUALLY HIGHLIGHTED THE MANY FLEXIBILITIES AGENCIES NOW HAVE TO TAILOR APPRAISAL AND RECOGNITION PROGRAMS TO THEIR UNIQUE AND CHANGING NEEDS. EMPLOYEE PERFORMANCE MANAGEMENT OFFERS A

PRIME OPPORTUNITY TO LINK WHAT EMPLOYEES DO IN THEIR DAY-TO-DAY WORK TO ACHIEVEMENT OF ORGANIZATIONAL RESULTS, CUSTOMER SATISFACTION, AND EMPLOYEE FEEDBACK, THE BALANCED MEASURES CITED IN THE PRESIDENT'S BUDGET FOR FY 2001.

WE WILL CONTINUE TO PROVIDE A FULL RANGE OF GUIDANCE ON HOW AGENCIES CAN USE ALL THE COMPONENTS OF PERFORMANCE MANAGEMENT -- SETTING PERFORMANCE EXPECTATIONS, MONITORING HOW WELL WORK IS BEING DONE, PROVIDING EMPLOYEES DEVELOPMENTAL OPPORTUNITIES, RATING PERFORMANCE, AND RECOGNIZING EXCELLENCE IN PERFORMANCE -- TO SUPPORT ACHIEVEMENT OF THESE BALANCED RESULTS.

WE WILL ALSO CONTINUE TO ASSIST AGENCIES IN DEVELOPING EXPERTISE IN USING PERFORMANCE MANAGEMENT FLEXIBILITIES. WE ALREADY HAVE A WIDELY-USED WEB PAGE CONTAINING ALL OF OUR PERFORMANCE MANAGEMENT PUBLICATIONS. TO ENHANCE THE USEFULNESS OF THIS TOOL, WE WILL SOON ESTABLISH AN INFORMATION CLEARINGHOUSE THAT WILL INCLUDE INFORMATION SUBMITTED BY OUR CUSTOMER AGENCIES ABOUT THEIR OWN EXPERIENCES, BEST PRACTICES, AND "LESSONS LEARNED" IN THE VARIOUS COMPONENTS OF PERFORMANCE MANAGEMENT.

#### **EXECUTIVE LEADERSHIP**

DESPITE OUR HARD WORK AND OUR INNOVATIVE PLANS, IF WE DON'T MANAGE OUR PEOPLE WELL AND WITH COMPASSION, OUR PROGRAMS WILL NOT SUCCEED AND THE AMERICAN PEOPLE WILL NOT GET THE SERVICES THEY PAY FOR. THE KEY IS LEADERS WITH THE ABILITY TO DESIGN AND IMPLEMENT STRATEGIES THAT MAXIMIZE EMPLOYEE POTENTIAL AND FOSTER HIGH ETHICAL STANDARDS.

WE MUST SELECT AND DEVELOP EXECUTIVES AND MANAGERS WHO CAN LEAD AND MOTIVATE PEOPLE, WHO ARE RESULTS-DRIVEN AND ACHIEVE THOSE RESULTS THROUGH PARTNERSHIPS AND BUILDING COALITIONS, AND WHO HAVE A KEEN BUSINESS SENSE ABOUT USING THEIR RESOURCES -- ESPECIALLY THEIR VALUABLE HUMAN RESOURCES -- TO GET THE BEST RESULTS FOR THE TAXPAYERS. TOGETHER WITH OUR STAKEHOLDERS, WE ARE WORKING ON A SERIES OF IMPROVEMENT INITIATIVES TO ENSURE THAT THE GOVERNMENT SELECTS AND DEVELOPS EXCEPTIONAL EXECUTIVES WITH THE LEADERSHIP EXPERTISE NEEDED TO MEET THE CHALLENGES OF THE NEW CENTURY.

#### HUMAN RESOURCES PROFESSIONALS

WHILE IT IS THE JOB OF LINE MANAGERS AND EXECUTIVES TO DEPLOY PEOPLE TO ACHIEVE AN AGENCY'S GOALS AND OBJECTIVES, HUMAN RESOURCE PROFESSIONALS PLAY A CRITICAL ROLE IN THIS PROCESS AS THEIR EXPERT ADVISORS AND CONSULTANTS. HUMAN RESOURCES PROFESSIONALS



REPRESENT THE FRONT LINE OF CUSTOMER SERVICE TO FEDERAL EMPLOYEES AND MANAGERS, AS WELL AS TO CITIZENS SEEKING EMPLOYMENT OPPORTUNITIES WITH THEIR GOVERNMENT.

THEREFORE, WE AT OPM HAVE REAFFIRMED OUR COMMITMENT TO STRONG HUMAN RESOURCE LEADERSHIP WITHIN FEDERAL AGENCIES. WE ARE COMMITTED TO HELPING AGENCIES BUILD A STRATEGICALLY-FOCUSED HUMAN RESOURCES WORKFORCE WITH THE SKILLS AND CAPABILITIES NEEDED TO MEET THEIR FUTURE CHALLENGES. FOR EXAMPLE, WE WILL CREATE A WEBSITE FOR HUMAN RESOURCES PROFESSIONALS SO THEY HAVE ACCESS TO THE VERY LATEST INFORMATION AND GUIDANCE, AND WE WILL HELP AGENCIES LEVERAGE SCARCE RESOURCES BY SHARING TRAINING PROGRAMS ACROSS THE GOVERNMENT.

AS I NOTED EARLIER, THE FEDERAL GOVERNMENT'S MOST VALUABLE ASSET IS THE TALENTED AND DIVERSE MEN AND WOMEN WHO WORK EVERY DAY TO MAKE A DIFFERENCE IN THE LIVES OF THE AMERICAN PEOPLE THEY SERVE.

WITHOUT ATTRACTING AND RETAINING THE RIGHT PEOPLE IN THE RIGHT JOBS, WITH THE RIGHT SKILLS AND TRAINING, NO ORGANIZATION CAN PERFORM ITS MISSION.

THAT CONCLUDES MY PREPARED REMARKS. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

Statement for the Record

Deidre A. Lee, Acting Deputy Director for Management  
Office of Management and Budget

Prepared for  
The Subcommittee on Oversight of Government Management,  
Restructuring, and the District of Columbia  
Committee on Governmental Affairs  
United States Senate

March 9, 2000

Thank you for the opportunity to comment on the criticality of human resources and the management challenges facing the Federal government. We recognize the tremendous impact of people -- the Federal government's workforce -- in providing services and resources that the American people care about and have come to expect from their government.

Over the last seven years, the Federal government has taken monumental strides to reinvent itself. To achieve the President's objective of improving the responsiveness and performance of government, the National Performance Review (NPR), under the leadership of Vice-President Gore, was initiated, and it is now the longest-running management reform effort in history. It has created a government that works better, costs less, and gets results Americans care about. In addition to reducing the size of and streamlining the Federal workforce, it eliminated obsolete programs and agencies, empowered employees to cut red tape, eliminated unnecessary regulation and used partnerships to achieve results. Augmenting and complementing this effort were two laws enacted by Congress - the Government Performance and Results Act of 1993 (GPRA) and the Federal Workforce Restructuring Act of 1994. These provided additional tools to speed the achievement of the President's reinvention plans.

While GPRA was enacted in 1993, agency strategic planning and management is still very much in its infancy -- implementation is incremental and iterative, and properly so, as agencies gain experience with the process and prepare their workforces to meet new challenges.

**The Challenges and Our Response**

The human resources management challenges facing the Federal government now and in the foreseeable future are many -- they include meeting increasing and increasingly complex demands for services without appreciable increases in resources for staffing; planning for the selection of successors to a graying workforce; competing for talent with the private sector; projecting and planning for rapid changes in the jobs our people must perform, and in the skills they need to succeed; keeping pace with the incredible pace of changes in technology available

to us to both understand the jobs we need to do, and how to do them. These challenges affect different agencies in different ways, depending on such variables as mission, structure, size, geographic dispersion or the people served.

To help agencies meet these challenges, this Administration has strongly encouraged agencies to re-engineer their structures, organizations and workforces to focus on the primacy of providing their customers -- the American people -- services that they needed. As agencies continually reevaluate themselves in an effort to improve performance, the overarching competitive civil service system, which covers 1.4 million Federal workers, must keep pace with their needs. Agencies need flexibility to reconfigure, re-engineer, and realign their workforces in a manner that best suits their management needs now and for the future. But rather than developing individual human resource solutions one agency at a time, we have developed comprehensive approaches, to provide a palette of government-wide human resource management tools that agencies can choose from so as to best support each agency's mission and characteristics of their workforce.

Over the past several years, the Administration has, under the leadership of the Office of Personnel Management (OPM), developed a number of such tools, either administratively or as legislative proposals, to provide increased flexibility for agencies to hire, compensate, reward, and manage their workforce. To ensure that the Federal government operates as a single employer, the legislative proposals have attempted to strike a balance between the need for flexibility with a level of consistency across the government. These tools include the Voluntary Early Retirement Act (VERA), the Voluntary Separation Incentives Program (VSIP, or "buyouts"), identification of Performance-Based Organizations (PBOs), waivers of the dual compensation penalty for government annuitants re-hired to meet Y2K challenges, and special emphasis programs for minorities and people with disabilities designed to increase the richness and diversity of the Federal workforce.

#### The New Priority Management Objective

For the past few years OMB has used a list of "Priority Management Objectives" to track progress in achieving specified outcomes and key milestones for a select number of initiatives which, we believe, are critical to advancing excellence in government-wide agency management matters. The current list includes twenty-four such objectives, and are described in detail in the President's FY 2001 Budget on pages 293-303. To emphasize our commitment to aiding agencies in their efforts to address their human resources management challenges, OMB Director Lew created a new Priority Management Objective on this topic this year.

This priority management objective is expressed as an effort to: **Align human resources management to support agency goals.** Using three strategies, we will strive to ensure that Federal agencies plan strategically to maximize performance of their workforce (people) resources in order to achieve program results Americans care about:

- (1) OPM will help agencies strategically assess their human resources to ensure a quality Federal workforce in the 21<sup>st</sup> Century. Among other things, OPM will design and develop a workforce planning model that will permit line managers to analyze their current workforce, prepare various "what if" scenarios under a variety of recruitment, restructuring or mission change models to determine the workforce that will be needed, and help determine actions needed to close the gap between the two.
- (2) OPM will help agencies create and maintain labor-management initiatives that will empower executives, managers, and especially employees to improve customer service and get mission results.
- (3) Through outreach, training and education programs, OPM will encourage agencies to make better use of current flexibilities in existing human resources policies, regulations and systems. OPM will also prepare legislative proposals, where necessary, consistent with those human resources management strategies.

The PMO objective is based on the following four premises, which have evolved over the past few years with our experiences in Reinventing Government, implementation of the Government Performance and Results Act, and other actions:

- (1) People are critical to achieving government results. We must pay more attention to the strategic management of this vital asset at all levels in our organizations - not just at the top or in Human Resources (HR) units.
- (2) Strategic HR means that agency program executives and managers need to understand the strengths and weaknesses of their workforce, what their workforce needs are now and (particularly) in the future; and how to align their resources with agency mission, goals and objectives as described in GPRA strategic plans and annual performance plans.
- (3) Agencies and managers need effective strategies to recruit, hire, manage, reward and retain a workforce capable of producing results, and they need easy access to human resource expertise that will support them.
- (4) The strategic goal for FY 2001 should be to ensure that agencies have access to and use all of the flexible human resource policies, systems, and expertise necessary to support these objectives.

OPM Director Janice Lachance is appearing before this Committee and will discuss the detailed Action Plan that OPM and OMB have prepared. She will also describe numerous actions now underway to support achievement of the PMO. We enthusiastically support and work eagerly as a partner with OPM on this interagency venture.



Comptroller General  
of the United States

B-283776

June 30, 2000

The Honorable Daniel K. Akaka  
Ranking Minority Member, Subcommittee on  
International Security, Proliferation, and Federal Services  
Committee on Governmental Affairs  
United States Senate

Subject: Human Capital: Responses to Questions Related to Managing the Federal Government's Human Capital in the 21<sup>st</sup> Century

Dear Senator Akaka:

On March 9, 2000, we testified on managing the federal government's human capital in the 21<sup>st</sup> century.<sup>1</sup> This letter responds to the additional questions you raised based on that hearing. Our responses draw upon the knowledge we have gained in evaluating federal agencies as well as upon previously published reports and products.

**Question 1. Mr. Walker, as the ranking Member on the Federal Services Subcommittee, I appreciate your responses to my questions at the hearing. In follow up to my question on the contract workforce, I would like to know how agencies that outsource or contract out their work or functions ensure that the remaining employees have the capacity to manage the third party product and assess whether the contracted out work has been done in an efficient and economical manner?**

We have not performed a government wide review of this area. However, based on the work that we have done, we have found that agencies all too often have not ensured that they have adequate numbers of skilled staff with necessary support systems to manage third party and contracted work. For example, although some progress is being made, we have found that the agencies that do the bulk of the contracting in the federal government are at high-risk due to contract management weaknesses. The Departments of Defense (DOD) and Energy (DOE), the National Aeronautics and Space Administration (NASA), and the Superfund program administered by the Environmental Protection Agency (EPA) each have longstanding problems managing contracts. We have designated DOD's contract management as high-risk since 1992 and the other areas (Energy, NASA, and Superfund contract management) have been on our high-risk list since its inception in 1990. DOD spends more than \$100 billion each year contracting for goods and services, and acquisition

<sup>1</sup> Human Capital: Managing Human Capital in the 21<sup>st</sup> Century (GAO/T-GGD-00-77, Mar. 9, 2000).

reform has received high level attention at DOD. However, DOD faces a number of areas where risks appear particularly acute, including the need to effectively control its payment process to avoid erroneously paying contractors millions of dollars and to strengthen its analyses for commercial purchases. In response, DOD is taking steps to improve its payment process and controls, and to improve its workforce training in commercial buying and pricing.

The Department of Energy (DOE) is the largest civilian contracting agency in the federal government, but its lack of skilled staff in program and contracting oversight positions poses a fundamental challenge contributing to environmental problems at many DOE facilities. DOE has efforts underway to increase its use of competition in awarding contracts and to incorporate performance-based incentives to better link contractor's fees to the satisfactory accomplishment of tasks. NASA has begun implementing a new system for measuring procurement performance, but a critical component of evaluating NASA's ability to manage contracts is the establishment of a financial management system and its integration with full cost accounting. NASA is developing the financial management systems and processes it needs to oversee procurement activities and to produce accurate and reliable contract management information in a timely manner. EPA also faces long-standing challenges, including the need to better control the costs of the contractors it uses to clean up sites. We found, for example, that EPA's estimators lacked experience and actual data on cleanups for use in estimating proposed contract costs. EPA acknowledges these problems and has begun implementing corrective actions to improve its cost estimates.

In summary, your question highlights the importance of workforce planning. When agencies do contract out particular work or functions, agencies need to think about the capacity and technical expertise that will be needed to adequately oversee these contracts so that they retain staff with the necessary skills in-house to manage the cost, quality and timeliness of contractor work. Agencies also need to take steps to ensure that their employees have the training, tools, and information they need, particularly reliable financial and cost information, in order to effectively manage contracts and ensure that the government is getting its money's worth.

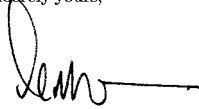
**Question 2. Mr. Walker, GAO provides Congress with financial audits, program reviews, investigations, legal support, and policy and program analyses. The impartiality of GAO is well known. With greater emphasis on managing for results, both through statute and general policy realignment, how will GAO balance the goals of performance based management with the need to be impartial in the work that it provides to Congress? Do you believe that as GAO strives for performance based results that its impartiality is at risk?**

We strive for, and have achieved, performance-based results without putting our impartiality at risk. The starting point for this is our three core values: **Accountability, Integrity, and Reliability**. **Accountability** describes the nature of our work, in which we help the Congress oversee federal programs and operations, bring about improvements in the efficiency and effectiveness of government programs, and ensure accountability to the American people. **Integrity** describes the high standards that GAO sets for itself in the conduct of its work. GAO takes a professional, objective, fact-based, nonpartisan, non-ideological, fair, and balanced approach to all its activities. And **Reliability** describes GAO's goal for how our work is viewed by the Congress and the American public. We intend our

products and services to be timely, accurate, useful, clear, and candid. Inherent in these core values is adherence as well to applicable professional standards.

We consistently emphasize these core values and professional standards not only institutionally at the GAO-wide level, but also individually in our employees' performance standards. In assessing our performance and the results we achieve, we use a balanced scorecard approach that explicitly includes compliance with core values and professional standards and places a premium on maintaining and enhancing our reputation for impartiality. We also regularly seek feedback from Congress, agencies, and our employees. This feedback provides important checks and balances to maintain and enhance our reputation for integrity. Measuring performance-based results is central to our ability to achieve our mission of supporting the Congress in carrying out its constitutional responsibilities and improving the performance and accountability of the federal government for the benefit of the American people.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'D. Walker', followed by a horizontal line.

David M. Walker  
Comptroller General  
of the United States



OFFICE OF THE DIRECTOR

UNITED STATES  
OFFICE OF PERSONNEL MANAGEMENT  
WASHINGTON, DC 20415-0001

MAR 28 2000

Honorable George Voinovich  
United States Senate  
Washington, DC 20510

Dear Senator Voinovich:

Thank you for highlighting the critical issue of managing human resources and the opportunity to share with you how the Office of Personnel Management (OPM) has been working with agencies to create the workforce for the 21<sup>st</sup> century. I am pleased to respond to your question about how OPM assesses human resources management and the tools we give agencies to assess themselves.

Our civil service system is based on a solid foundation of merit system principles and laws. At OPM, our obligations as the historic protectors of the merit system transcend the parochial concerns of any one agency or department, and require us to assure the trust of the American people. So, although OPM has given agency heads many workforce management authorities to help further their diverse missions, we continue to ensure that the Federal Government, as an employer, consistently honors our national priorities of a merit-based and results-driven workforce. We assess these priorities in two ways: by examining whether agency human resource programs and practices are both merit-based and comply with law and regulation; and by evaluating how well agencies are using these human resources systems to meet their strategic objectives, and thus their obligations to the American people.

At the core of this strategy is our diagnostic tool, the *Merit System Principles Questionnaire*. This survey, which we administer annually to a governmentwide sample of employees and supervisors, assesses whether agencies are managing their human resources in accordance with our historic responsibilities for fair Federal employment, as codified in the nine Merit System Principles listed in 5 U.S.C. 2301(b). I have enclosed a copy of the *Questionnaire*, and a summary of recent governmentwide results, for your information.

Our Oversight Program uses the results of this survey to conduct a revolving series of onsite agency reviews to ensure their human resources practices are carried out fairly, equitably, effectively and most important, in accordance with our Merit System Principles.

During these visits, we look carefully at how well agencies are aligning their human resources systems with their strategic objectives. We use the following four part framework for our assessments:



**Merit-based decisions:** Are managers and supervisors held accountable for adhering to the Merit System Principles? Does the human resources function provide awareness of these critical principles? Does the agency periodically assess itself to ensure that decisions affecting its people are based on merit?

**Effective programs:** Are agency human resources programs tailored to fit organizational objectives and mission priorities? Is employee input fully integrated into the design of new HRM programs? Do managers and human resources staff know and make effective use of the HR system flexibilities we have given them to achieve desired results? Do managers and employees know what is expected of them, and have the tools and training to achieve it? Are managers and employees held accountable for results?

**Efficient practices:** Does the HR function provide high quality, cost-effective and timely services to managers, employees and applicants? Are mechanisms in place to ensure that both internal and external resources promote quality service?

**A shared vision:** Do agency goals, strategies and people all fit together to get the job done? Are measures identified and tracked to verify human resources are being used effectively to carry out the strategies? Do managers and human resources staffs work together on an ongoing basis to achieve these goals? Are labor-management partnerships used to develop and achieve a shared vision throughout the agency?

In addition, OPM actively works with agencies on new human resources management accountability systems so that they can better assess their own programs. To give you a little more detail on this process, I have also enclosed our *HRM Accountability System Development Guide* (1998). This guide gives agencies a roadmap to create these self-assessment systems.

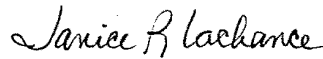
But that is not enough. We also conduct special studies to take a closer look at how well agencies are aligning human resources management with their mission objectives, as well as inform policy makers.

I have enclosed two recent studies on this subject for your information. One study, called *Strategic Human Resources Management: Aligning with the Mission* (1999) was a significant OPM initiative throughout Fiscal Year 1999 and is very much in line with the topic of your hearing and the GAO assessment tools discussed at the hearing. For the last year, it has been helping agencies understand this critical challenge and giving them concrete examples of best practices. The second study, called *The R's: Lessons Learned From Recruitment, Retention and Relocation Incentives* (1999), is helping agencies improve their use of these programs and has already led to several recent policy proposals.

Thank you again for the opportunity to share our strategic assessment instruments with you. I enjoyed the chance to discuss these issues in person, and I greatly appreciate the attention you have brought to these vital human resources management issues. OPM has been at the forefront of this topic since our creation in 1978, and this agency will continue to proactively identify and respond to not only the evolving demographics of today's workforce, but also the trends of the workforce of the future. I know that we can work together to advance these issues and respond to these challenges for the benefit of the Federal Government, its most important asset – its people, and ultimately, the American public.

Please let me know if you have any additional questions about OPM's work in this area or the material I have provided here.

Sincerely,

A handwritten signature in black ink that reads "Janice R. Lachance". The signature is written in a cursive, flowing style.

Janice R. Lachance  
Director